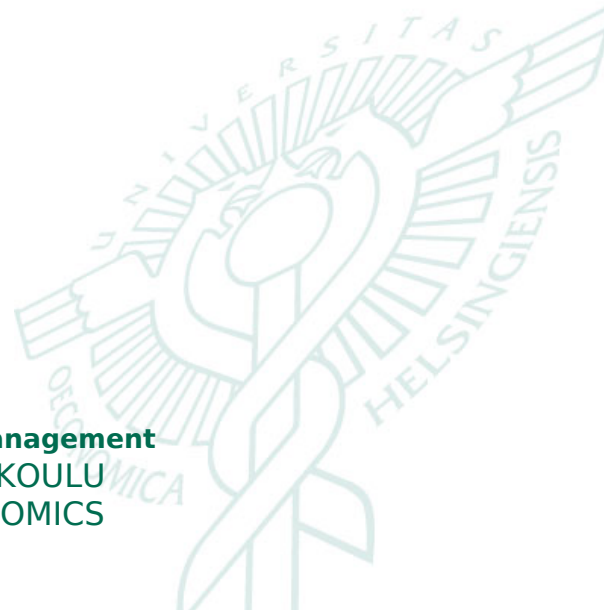


EFFECTS OF INSTITUTIONAL CONSTRAINTS TO FOREIGN MARKET ENTRY STRATEGIES OF FINNISH ICT-COMPANIES IN SUB-SAHARAN AFRICA

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INSTITUTIONAALISTEN RAJOITUSTEN VAIKUTUKSET SUOMALAISTEN ICT-YRITYSTEN TULOSTRATEGIOIHIN SAHARAN ETELÄNPUOLISESSA AFRIKASSA

Tutkimuksen tavoitteet

Tutkimuksen tavoitteena oli tutkia institutionaalisten rajoitteiden vaikutuksia suomalaisiin ICT-alan yrityksiin Saharan eteläpuolisessa Afrikassa. Tarkempaan tavoitteena oli institutionaalista teoriaa hyödyntäen tutkia millaisia vaikeuksia ja haasteita suomalaiset yritykset kohtaavat etabloituessaan Saharan eteläpuolisille markkinoille. Huomiota kiinnitettiin myös kontekstuaalisiin tekijöihin, jotka vaikuttavat suomalaisten yritysten markkinoilletulovalintoihin. Tavoitteena oli niin ikään tutkia millaisina yritykset näkevät paikallisen institutionaalisen ympäristön paineet, miten yritykset reagoivat niihin, ja miten yritykset pystyvät saavuttamaan legitimitetin Saharan eteläpuolisen Afrikan myrskyisillä markkinoilla.

Metodologia

Tässä tutkimuksessa sovellettiin kvalitatiivista tutkimuslähestymistapaa. Tutkimuksen metodina oli moni-case tutkimus, ja valitut case-yritykset olivat Omnitele, Jutel, Tramigo ja SANAKO. Kukin case-yritys edusti tutkimuksen yhtä valittua esimerkkimaata. Empiirinen osa koostui kuudesta syvähaastattelusta, jotka nauhoitettiin ja analysoitiin tutkimusongelman valossa. Nämä syvähaastattelut noudattivat konstruktivistista haastattelumallia. Kaikki haastattelut, yhteensä kuusi kappaletta, suoritettiin marraskuun 2008 ja tammikuun 2009 välillä.

Tutkimuksen tulokset

Tutkimuksen tulokset osoittavat, että ulkomaiset markkinoille tulijat suosivat Saharan eteläpuolisessa Afrikassa epäsuoria tulostrategioita, ja että paikallisella partnerilla ja ulkopuolisella konsultoinnilla on merkittävä rooli näille yrityksille. Tulokset ilmentävät myös sitä, että yritykset pyrkivät joko vastustamaan paikallisia institutionaalisia paineita tai sovittelemaan toimintaansa niiden mukaisesti. Laadukas tuote ja hyvät henkilösuhteet nähtiin Saharan eteläpuolisessa Afrikassa toimivien yritysten legitimitettiin voimakkaimmin vaikuttavina tekijöinä.

Avainsanat

Saharan eteläpuolinen Afrika; institutionaalinen kehikko, institutionaaliset rajoitteet, paikallinen partneri, henkilösuhteet.

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Objectives of the research

The aim of this study was to examine the effects of institutional constraints to Finnish ICT companies in sub-Saharan Africa. To be more specific, the aim was to investigate using institutional theory, what kind of difficulties and challenges Finnish companies come across when penetrating sub-Saharan African markets. Attention was paid on contextual factors which affect entry decisions of Finnish companies. The another aim was to investigate how companies see and react to pressures arising from local institutional environment and how these companies are able to achieve legitimacy in turbulent markets of SSA.

Methodology

In this study qualitative research approach was applied. The method of this study was multi-case study, and the case companies were Omnitele, Jutel, Tramigo and SANAKO. Each of these case companies represented one example country of the study. The empiric part included six in-depth interviews which were recorded and analyzed in the light of the research problem. These in-depth interviews followed a constructionist interview research approach. All these six interviews were conducted between November 2008 and January 2009.

Findings and conclusions

The findings of this study indicate that foreign entrants tend to use in-direct modes of entry in sub-Saharan Africa and that importance of local partner or outside consultancy is extremely relevant. Findings also suggest that different institutional constraints affect foreign companies differently and that case companies were either defying or compromising with the institutional pressures of local market environments. As for establishing legitimacy of the company in sub-Saharan African markets, competent products and good personal relations can be seen as factors mostly affecting legitimacy in the region.

Keywords

Sub-Saharan Africa, SSA; institutional framework; institutional constraints; local partner; personal relations

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1 Introduction

1.1 Background

Africa is often described as a lost continent, the continent that has been deeply damaged by wars, famines and deadly diseases and plagued by tremendous poverty. Western media often emphasizes the negative side of Africa and only occasionally does positive news come out from Africa. My personal interest towards this topic arose when I was doing my six months traineeship in Kenya; I was able to witness great optimism among the people everywhere I traveled in East Africa. During my journey I saw tremendous potential in the continent. During the same journey I also witnessed and experienced the post-election crisis in Kenya when the country was at the very edge of civil war in December 2007–February 2008.

Sub-Saharan Africa (SSA) consists of 45 different countries which are presented at the end of this section. Current growth in Sub-Saharan African countries has over the past four years been more promising than in the last three decades. In 2007 the growth was about 6.5%; IMF predicts that in 2008 the growth rate will be the same. At the same time the growth in the EU was 2.7%. It seems that despite immense challenges Sub-Saharan Africa might become anew hot spot for economic growth. Naturally this creates opportunities as well challenges for Finnish companies, which is why this research has been conducted.

While many European and US companies have casted their eyes to Asia, Africa has attracted less attention. However, countries like China have invested billions in Sub-Saharan Africa that is home for over 770 million people, which makes 10% of the global population. Demographically it is one of the fastest expanding markets in the world. Sub-Saharan Africa is notably rich with natural resources that are to a great extent still unexploited. For example China needs Africa's energy and resources and has clearly identified huge prospects in the continent that other countries have neglected.

This research is topical in many ways. To begin with, Finland has a long history in Africa where the first Finnish missionaries positioned already in the 19th century. Finnish government has been aiding various African nations since their early independence in the 1960s and actively supporting development of Africa. Despite this activity, Finland's trade with Sub-Saharan African nations is very small-scale business. Despite the tremendous potential in SSA markets there are clearly a lot of constraints and challenges which can be considered as a reason to cut down Finnish economic involvement in SSA. Furthermore, it is commonly known that it has been estimated that in the future aid to developing countries will be more and more trade-related than direct monetary aid. Trade-related aid potential could be one of Finland's niches.

Despite the immense business potential in the SSA area, business general market environment is still challenging and risky. The SSA countries are still deeply affected by poverty and weak infrastructure. Nevertheless, institutional environment and the performance of African business practices are often not clearly understood. In SSA lack of proper market institutions add additional challenges and constraints which have to be taken into consideration while conducting business in SSA or while considering market entry to the area. To study those companies that are already active in SSA or have experience in the region could provide important knowledge on how to tackle environmental forces and to assess business potential prevailing in the area.

This research was conducted based on my own genuine interest. There are few recent studies analyzing macro environment and assessing challenges and risks of Sub-Saharan Africa from Finnish company perspective. This gap in research makes this study valuable and important to conduct. In addition, it also seems that academic research is less rapid than general growth in Africa. The topic of this study is partly new and has not been studied as widely as it should have been. Due to this fact it has been difficult to find new and relevant information. However, multiple and alternative information sources are used in this study.



Figure 1 Sub-Saharan Africa

1.2 Research gap

Sub-Saharan Africa has been widely studied in development economics that deals for instance with methods of promoting economic growth and structural change in low-income countries. In many researches (Goldsmith (1998), Ndulu and O’Connell (1999) and Masanjala and Papageorgion (2004)) Sub-Saharan Africa is examined from a historical perspective and authors concentrate on emphasizing defects of African states and giving recommendations which sub-African states should implement in order to gain economic growth. Many researches focusing on sub-Saharan Africa suffer from overgeneralization. After all, there are great differences between different countries in Sub-Saharan Africa.

There is vital need for research that identifies what it takes for the companies to be successful in the SSA markets and how the institutional environment affects that challenge. This study concentrates on institutional constraints to market entry strategies in Sub-Saharan Africa. The study seeks to avoid the problem of overgeneralization, and therefore example countries were selected in the empirical part and then analyzed how well these examples describe a whole region.

Macro-environmental forces are acknowledged to be an important determinant of strategy selection in international marketing (Nwankwo, 2000). Much of the theory of foreign market entry strategies has earlier been based on transaction theories while currently institutional context has been put increasing focus on (Brouthers, 2002). In complex environments, such as Sub-Saharan Africa, the significance of contextual factors could not be enough emphasized. Concerning different entry-mode choices institutional structure can provide barriers to entry such as legal restrictions on ownership (North, 1990). These legal restrictions can be seen as formal restrictions, but informal restrictions do exist as well because different interpretations might occur among authorities regarding how they regard legislation (Karhunen, 2002). The institutional environment affects companies and their market entry strategies in different ways because one can understand that each institutional constraint affects foreign entrants differently, even in cases when existence of all constraints is not noticed by firms' executives.

There have been previous studies (see Habiyakare and Tornroos, 2007) of Finnish companies' market entry strategies in SSA area, but they have been concentrating only on South Africa and have not applied an institutional approach to their studies. Therefore there is a clear gap in this research because there have been no previous researches available that link institutional constraints of Sub-Saharan Africa to Finnish companies and to their entry strategies and that apply the institutional approach. The company perspective has clearly been neglected in many researches which concentrate on Sub-Saharan Africa (Nwankwo, 2000). Concentration on specific industry will even further crystallize the existence of the research gap.

1.3 Research problem

The aim of this study is to clarify and analyze what kind of effects institutional environment exerts on Finnish companies in SSA. Therefore my research problem is *“How do formal and informal constraints of institutional framework affect entry strategies of Finnish companies operating in Sub-Saharan Africa”*. Both micro- and macro-level information will be included in this review in order to increase scientific

validity of the research. Due to the huge size of Sub-Saharan Africa, only some example countries are picked to this research and analyzed in the empirical part. To avoid overgeneralization, I will narrow down the scope to ICT companies. In this study, the focus is on Finnish companies since the study is made in Finland, but most likely information yielding from these companies may partially be applied to other foreign companies, too.

1.4 Research objectives and questions

The first objective of this study is to gain understanding of contextual factors which affect entry decisions of Finnish companies penetrating to the SSA region. The second purpose is to find information on how companies see and react to those factors, AND finally to provide information describing how competitiveness and legitimacy is achieved in turbulent markets of SSA and provide answers to ease attempts of Finnish companies to benefit from the economic growth of SSA. Thereby a more general objective concerning this study is to gain reliable and critical information on the topic.

The research problem is divided into three research questions which are the following:

1. What are the challenges and pressures which Finnish companies come across in SSA?
2. How do Finnish companies respond strategically in order to cope with pressures of the turbulent market environment of SSA?
3. What kind of organizational capabilities and strategies might be demanded from the company to overcome different constraints and gain legitimacy in the market area?

1.5 Contribution to international business

It has been a hallmark finding in the international business literature that companies must adapt their strategies to the host country environment (Meyer, 2001). Institutions have a great meaning to any economy, because they either facilitate or hamper

business. It is important then to gain deeper knowledge of how institutions affect business in SSA. The Finnish perspective is also important not only because it is a new a potential market area, but also because it provides information on how companies from small countries are able to compete in highly complex market areas.

1.6 Sub-Saharan Africa as research context

Sub-Saharan Africa, briefly SSA, is a widely used term to describe the part of Africa that has also been referred to as Black Africa. SSA is used to describe this area in geographical studies and reports, but is widely used to define this area in different economic reports such as the IMF's or The World Bank's reports. In addition, many private facets use SSA to distinguish this region. This study aims at explaining how the institutional environment affects companies in this area. In this part of the study, SSA is seen as a unified region to be scrutinized. In addition, information dealing with developing countries can in many cases be extended to provide answers to this SSA context, because SSA countries are some of the least developed in the world and unlike countries such China or Brazil can unarguably be stated to belong to the category of developing countries. Therefore, in this part of the study, SSA will be concentrated on as a whole. In further parts of the study, particular case examples are scrutinized in order in order to gain more profound understanding of challenges Finnish companies face in SSA.

1.7 Where is Sub-Saharan Africa now? Is it as bad as it looks like?

In many studies of global economic institutions and private institutions, scholars have emphasized the poor results of African development and growth (Goldsmith, 1998; Collier and Gunning, 1999; Easterly and Levine, 1997). According to Artadi and Sala-i-Martin (2003), Africa's growth performance is the worst economic disaster of the 20th century. All these authors state that despite the enormous hopes and opportunities Africa has done worse than it should have. These authors reflect the common pessimism which relates to economic growth of Africa. Growth has been undoubtedly weaker than in other economic regions, especially when GDP

or GNP per capita indicators are used to analyze economic development. A common feature of latter studies is that they indicate that poor growth performance is evident also in the future unless some radical changes will take place in macro-environment and institutions and deep economic problems of SSA can be overcome only if IMF and World Bank policy recommendations are successfully implemented.

Artadi and Sala-i-Martin correctly emphasize the human aspect of economic development in SSA. The authors point out that although some development has been seen, GDP capita has remained at zero levels in many of the very poorest countries in SSA. Artadi and Sala-i-Martin state that between the years 1975 and 2000 the number of Africa's poor has risen from less than 140 million to over 360 million. Commonly in almost every Sub-Saharan nation the rich have remained rich or become even wealthier while the poor have become even worse off (Artadi and Sala-i-Martin 2003).

Undisputable poverty is a tremendous problem in SSA and the number of the poor might actually be even higher than estimated. World Bank economist Branko Milanovic (2008) states that the number of the poor in the world is much higher than estimated earlier because of inadequate measuring and outdated price levels. Milanovic states that rich and poor countries should be measured equally by comparing price levels in different countries, because ultimately a haircut or a loaf of bread is exactly the same product or service regardless of where it is produced. The income levels are often measured in money but not in purchase power which is a more accurate way of measuring poverty. The main statement of Milanovic's study is that global poverty seems to be growing instead of shrinking. This shows that globalization ultimately increases poverty and misery instead of decreasing it as considered before.

Dramatic poverty is often mentioned as the first indication when SSA is discussed. Although poverty is widespread in SSA, it does not mean that Africa is not growing nor does it mean that there are no opportunities outside the humanitarian industry for foreign actors. Above all, even if poverty is increasing not only in SSA, but all over the world – it can occur as only a short-time phenomenon.

Past economic performance in SSA

Before going to the current economic situation of SSA it is important to take a small glimpse at history in order to better understand growth in SSA. In 1975–2005, the GDP per capita growth (PPP) was 0.70%, while it in 1995–2005 was 1.88%. During accelerating growth periods the region grew 3.6%, but shrank -2.7% during periods of growth collapses (Arbache and Page, 2007). The region grew fast in the sixties, but declined in 1973–74 during the OPEC oil prices shock and then stagnated or fell from the late 1970s to the early 1990s (Arbache and Page). The period of stagnation resulted from multiple reasons such as wars and famines, bad economic policies such as socialistic policies or central planning in Mozambique, Angola, Tanzania, Burkina Faso, Ghana, Ethiopia and Namibia. A negative view of Africa which is also related to the concept of Afro-pessimism is likely a result of the years of stagnation and bad economic policies.

Small growth numbers of SSA might be delusional, especially when the region is put to same context with other emerging economies, for example East Asian or Eastern European countries. Masanjala and Papageorgion (2004) found that African countries actually do grow differently from other countries. This founding was already backed before by Easterly and Levine (1997) who found that, conventional factors of growth (such as labor, physical and human capital accumulation) do not fully explain the bad results of sub-Saharan Africa's growth.

Masanjala and Papageorgion (2005) present four variables that have particularly affected SSA's dismal growth: the fraction of GDP in mining, the fraction of primary commodities in exports, years of economically open revolutions and coups, and investment. The authors explain that most of the mining economies in the world are located in SSA and in many countries mining has a significant fraction of both GDP and exports. Africa has not only been more closed than rest of the world, but has also suffered from constant coups and revolutions which explain bad growth results.

In a further study of Masanjala and Papageorgion (2005), the authors reveal that the legacy of colonialism has also negatively affected Africa's growth performance, because the independence from former colonial masters had left the countries in the

middle of social, tribal and economic difficulties. Some other reasons why Africa might grow differently are peculiar geography and geographical determinants, high malaria prevalence and HIV/AIDS. In addition, there are two other possible explanations for poor longer-term growth for Africa: inadequate education and poor health standards. (Johnson, et al. 2007).

Volatile growth in different African states has been a common characteristic between them, but this has happened in some cases during different time periods (Arbache and Page, 2007). While some countries have grown, others have declined and vice versa. Arbache and Page emphasize that the growth process in Africa may be erratic, and that past growth does not predict future growth. This statement reveals the actual fact that even though SSA has done more badly in terms of economic development than other developing countries, SSA has a chance to arise from poverty to future success.

Current economic situation of SSA

Although real GDP growth in SSA has been a disappointment in the past – it is important to understand that historical data of past growth is not an adequate indicator to measure future growth. Even if information of economic history and peculiarity of SSA helps to identify future challenges and indicate possible trends, it does not help to identify the figures of future growth.

Some recent academic writings suggest that Africa might be at the turning point after decades of low growth figures (Ndulu 2006; Commission for Africa 2008). The current growth is around 6% per year. But it is important to understand that this growth figure has been affected by Nigeria and South Africa, whose economies are the biggest in SSA. For example Nigeria's economy (166778; IMF) was over 40 times bigger than that of Niger (4174; IMF).

The picture below presents the economic growth in 2007 in the world and shows that SSA is growing at the same pace as regions in Asia and Latin-America.

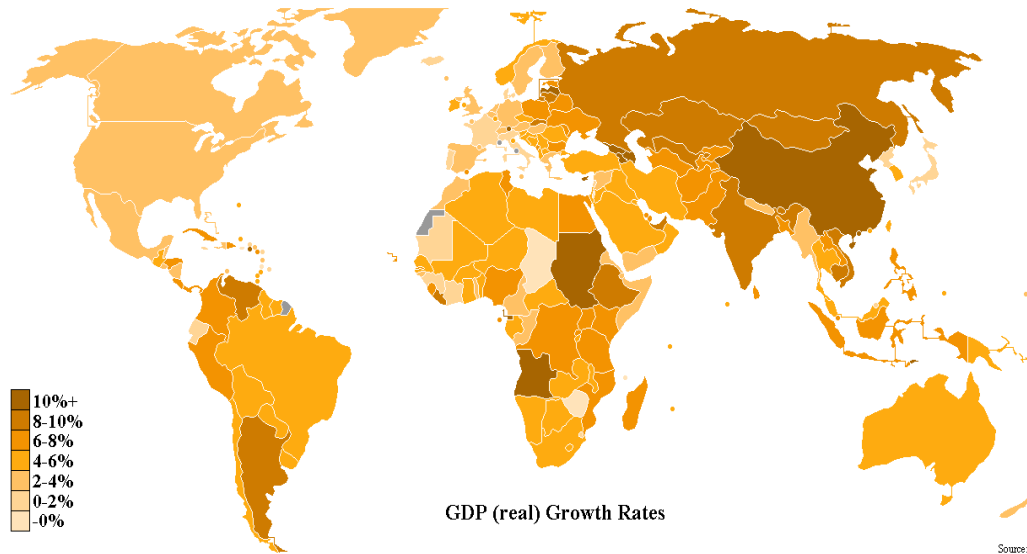


Figure 2 Real GDP growth of the world

Source: CIA Factbook, 2008.

The fastest growing countries in SSA are Angola (16.30%), Sudan (12.80%), Equatorial Guinea (12.70%), Ethiopia (9.80%) and Liberia (8.50%). These high figures can be explained by the rate of increased oil exports and high oil price, whereas Liberia has grown faster because of the recently ended civil war. If we take a glimpse at Real GDP growth, a steady over 5% growth for the last five years has occurred in Botswana (5.76%) and Mozambique (5.46%). In addition, other high positive growth countries are Nigeria, Namibia, South Africa, Ghana, Tanzania, Burkina Faso and Gambia. These countries have done exceptionally well in comparison with their rapid population growth and high level of inflation (IMF, 2008).

Although SSA countries lag behind in many ways, many of those countries are improving their market environments for foreign actors and undertaking serious reforms to maintain future growth. Nwankwo and Richards (2004) argue that although the pace of change varies from country to country in SSA one is able to identify a few general directions of change. To quote directly from Nwankwo and Richards, the main six patterns of change in Sub-Saharan Africa are the following:

- a change from a state-dominated economic order towards market-based economic system;

- a change in the political systems, that is, a considerable move away from systems dominated by one-party and military structures to some sort of multi-party, popular democratic arrangements;
- a shift from conflicts and strife to political reconciliation and social rehabilitation;
- a change in geo-demographics – a move away from “nationalistic introversion”(i.e. intolerance of other nationals) to greater cross-culture and cross-border mobility of labor and capital;
- a gradual shift from donor-led development assistance strategy to country-“owning” and directing development agenda; and
- a departure from the dependency/self-reliance approach of immediate post-independence initiatives (author’s quote Owusu,2003) – a realization that Africa cannot shield itself from globalization without risking further marginalization

(Nwankwo and Richards, 2004:112-13).

1.8 Characteristics of SSA business environment

Even though there is progressive change towards a more liberal market in SSA, there are some distinct characteristics in SSA business environment that distinguishes it from business environments in advanced countries. Some of the characteristics are similar everywhere in developing countries, and some are distinctively African. Some of the main characteristics are presented and briefly discussed below.

Different market structure

The market structure of SSA and different features of this structure differ greatly from market structures in advanced markets. According to Kinsey (1990:40–44), the reason for this is that the demand and supply conditions are very different. Kinsey states that a potentially high demand resulting from a growing population is reduced due to low income levels, poverty, poor health, low savings and cultural lifestyles. Kinsey continues that demand can be further reduced due to poor credit, high interest rates, poor distribution and infrastructure and storage. Cavusgil and Ghauri (1990:42) state

that domestic Third World markets are generally characterized by a seller's market and a concentrated market. It means that individual customer concerns are not crucial in consumer goods and that most personal selling strategies require modification (Kinsey, 1990:45). The latter is due to high government involvement.

Although there are relatively developed private markets in some SSA countries such as in South Africa, Kenya, Côte-d'Ivoire and Botswana, most of them are still far from market economies. According to Cavusgil and Ghauri, this is the fact because domestic markets in developing countries are small in terms of purchasing power and absolute size that ultimately leads to natural monopolies, for instance small markets would decrease interests of foreign companies to penetrate into the country. However, there are other reasons behind natural monopolies than the small size of domestic markets, such as legislation and regulation.

Dualism

Dualism refers to the issue of existing dual markets. There are the rich urban market and the poor rural market; basically these markets work in a parallel way, but are attached to each other so that different products are traded between rural and urban areas (Kinsey, 1988:40). According to Kinsey (1988:41), dualism exists also on other levels; for example, within urban centers different market structures exist between the modern affluent sector and the inhabitants of the slums and the shanty towns. Dualism can be witnessed also in the retailing sector where in big cities there are special retail shops for middle and upper classes and elsewhere all retailing may go through one general store (Kinsey, 1988:41).

The informal sector is one distinctive feature of dualist markets. According to Nwankwo (2000), the informal sector plays a key role in economic activities and in the marketing system at large in Africa by distributing goods and services and being a big source of employment. Jamison (2003) notes that the informal sector is characterized by a lack of official or governmental sanction and/or control of the activities of informal market participants. Due to the informal sector African economies often look smaller than they actually are which can lead to false assumptions of the market characteristics (Jamison).

Marketers of foreign companies should not neglect understanding informal marketing channels, because they play a crucial role in distribution in SSA (Jamison). Nwankwo argues that particularly firms in the fast-moving consumer goods (FMCG) should not neglect the role of the informal sector in reaching far-flung markets. Informal marketing channels can be difficult to manage, which is important because informal marketers participate in marketing in the same way as formal marketers do. However, informal marketers do not necessarily support overall marketing strategies or marketing communication, because informal marketers do not receive formal support from the company which for example might ultimately negatively affect the positioning of the product (Jamison). Jamison notes that particularly this can be the case with brand products which can be difficult to position in the markets because informal marketers often lack long-term commitment and are driven by short-term interests.

Corruption and rent seeking

Blatant corruption and mismanagement are certainly tremendous problems in SSA where most corruption is “rule in the system”. Huge natural resources, a history of autocratic and unaccountable governments and conflict and crisis throughout the continent have negatively affected governance and fight against corruption (http://www.transparency.org/regional_pages/africa_middle_east/about/africa).

Nigeria, Guinea, DRC and Kenya, to name a few, are famous examples of corrupt countries but there are many more. According to Transparency International (2008): “Out of 47 countries reviewed, 30 scored below 3 indicating that corruption is perceived as rampant there and 14 scored between 3 and 5 indicating that corruption is perceived as a serious challenge by country experts and businessmen. Only Botswana, Cape Verde and Mauritius are above the level of 5”.

According to Rodriguez et al. (2005), corruption has two different features: pervasiveness and arbitrariness. Arbitrariness refers to a firm’s likelihood of encountering corruption in its normal interactions with state officials (Rodriguez et al.). Transparency.org measures pervasiveness of corruption, but corruption varies by more than just the degree to which it engages firms (Rodriguez et al.). Corruption can

be associated with varying degrees of uncertainty that is arbitrary corruption. Arbitrary corruption occurs where laws and informal policies may be subject to capricious and varied interpretation (Alhstrom and Bruton, 2001).

Coolidge and Rose-Ackerman (1997) state that corruption at the top government is a major reason for weak institutions in Africa. Mbaku (1996) argues that in Africa, rent seeking is prevalent among bureaucrats and entrepreneurs. Mbaku reveals that where government imposes severe risk or cost on a business, the entrepreneur is able to minimize the cost by paying bribes to a member of the enforcement community. Due to weak institutions government has in many cases unlimited power to intervene in private exchange. Consequently, corruption is mainly rent-seeking behavior which is directly linked to the level and extent of government activity in the economy (Mbaku). The more influence government has on economy the more corruption occurs in the economy.

Business networks

The role of business networks is often more important in economies where the business environment is not fully developed or is in a transitional phase. For example in China and Russia the role of business networks has been important in order to get access to resources and knowledge which would otherwise be impossible due to institutional constraints (Michailova and Worm, 2003). Consequently, networks ease companies to perform in harsh and/or underdeveloped environments. This is because relationship-based commerce will prevail where rule-based markets cannot flourish due to institutional deficiencies.

According to Fafchamps (1999), business networks are essential in Africa also because they facilitate business transactions and play a variety of functions. McDade and Spring (2005) state that entrepreneurial networks do not only exist within one country but are significant also in cross-border trade in SSA. Fafchamps states that the main role of networks is to create trust, which in a way acts as a substitute for the security provided by costless legal enforcement. He continues by pointing out that a relationship-based network is expected to arise in markets where screening costs are high and where potential abuse is a threat leading to a situation where personal trust is

substitute to external enforcement. In that context a legal system is often incapable of providing sufficient protection against opportunistic breach of contract (Fafchamps).

Fafchamps argues that trust is based on a history of successful changes which also leads to a person's trustworthiness and reputation in the network. Relationships are also beneficial because they can help economize on search cost by getting access to information which would otherwise be difficult to achieve (Fafchamps). Personal relationships and contacts are clearly important in SSA, but Fafchamps argues that entry into an existing network is biased since many networks are based on exclusion of "outsiders". Nevertheless, Fafchamps states that outsiders are able to gain acceptance in the business community, but it takes time because new-comers are "tested" first. There is therefore clear a similarity between Guanxi and Blat networks where long-term commitment is desired from a new-comer. Fafchamps also recognizes the importance of social interacting in entering and maintaining networks. This indicates that also foreign entrant firms can utilize local networks and ease the penetration to the markets.

High costs

Shelley (2004:pp.18) states that even though return on investments can be higher in Africa than in other parts of the developing world, one should bear in mind that costs and risks are far higher, too. Shelley emphasizes that although production costs are low in most of Africa, productivity is also low. This is also due to poor infrastructure which has immediate effects on production costs. Furthermore, office rents, telephone charges etc. can be as expensive in Africa as they are in Europe. Tax rates are higher in Sub-Saharan Africa than in any other region in the world: almost 67% of the profits are used on tax payments (see appendices.). Costs can also always occur to be higher than evaluated. Jackson (2004:57) quotes one Western managing director positioned in Cameroon who describes that the economy in Cameroon is severely under the control of the IMF and the World Bank, which has led to a situation where government tries to collect more taxes from the companies they know will pay rather than widening the tax base. He also mentions that those with contacts in government can deal with that kind of problems in a pragmatic way (bribing). This is directly

linked to weak tax collection in Africa which can therefore have negative affects on foreign companies.

HIV/AIDS

Last but not least, the severe HIV situation characterizes SSA market environments. The HIV/AIDS pandemic varies from country to country, but it has been estimated that in 2007, over 22 million people were infected with AIDS in SSA, which is roughly two thirds of the number of infected people in the world (UNAIDS). HIV/AIDS has a profound impact on economic growth by affecting productivity growth, accumulation of population, labor and human capital and accumulation of physical capital (Arndt, 2006). The disease impacts negatively on the work pool in the host country. Companies need to be prepared to assign additional resources to training new workers while old ones are dying of AIDS. In addition, HIV/AIDS has a direct impact on the market structure which further might somehow affect entry strategies of foreign companies.

1.9 ICT sector in Sub-Saharan Africa

One particular reason for backwardness and unsuccessfulness of SSA economies is related to the digital gap between Africa and the West. Stenvall (2004) states that Africa is the most excluded continent in technological progress in ICT. She describes how significant a meaning ICT has in poverty eradication and equality promotion, but states that in a global setting the ICT sector might actually only increase global inequality, because so few people in the developing world has access to this technology. The role of ICT in development has also been noted among SSA countries where over thirty of them has some kind of national ICT promotion agenda (Stenvall).

Although it might seem that ICT has a controversial role in SSA, its importance has been acknowledged as a key future success factor by SSA countries. Therefore the ICT industry has a huge potential being one of the fastest growing sectors in Africa. It is important to realize that technological solutions marketed should take Africa's characteristics into consideration meaning that Africa needs ICT products and

services that can be better adapted to local conditions (Stenvall). For example, low-cost innovations could provide one approach to utilize growth potential of ICT in SSA (Tucano, 2006 see the article: <http://www.infodev.org/en/Publication.109.html>).

The role of Finnish ICT companies in SSA could be seen through the model of Luostarinen (1994) who theorizes that there are both push and pull factors in different industries which affect firms' internationalization process. Although this framework will not be further analyzed, its main message is still very much relevant: firms will either have to extend their activities out of their national borders or they will vanish. The gradual openness and large size of African markets both geographically and demographically act as a pull force for internationalization and entry. After all, in large markets bigger sales can be achieved than in small markets. Although previously Africa has been seen as a hostile environment it is gradually becoming more and more open for foreign actors and foreign investments. This can particularly be the case with ICT. Its significance for development has been acknowledged by governments throughout SSA, which can ease entry of foreign ICT companies.

1.10 Trade of Finnish companies in SSA

In 2007, the trade balance with SSA countries posted a surplus of over 700 million. Exports grew 11% and imports grew 19% compared to 2006. Countries with whom Finland had trade activities were South Africa, Nigeria, Tanzania, Uganda, Zambia, Mauritius, Ghana, Angola, Ethiopia, Mozambique, Botswana, the Democratic Republic of Congo, Swaziland, Lesotho, Burundi, Malawi, Namibia, Zimbabwe, and Rwanda.

(http://www.tulli.fi/fi/05_Ulkomaankauppatilastot/05_Tilastokatsaukset/pdf/2008/2008_M20.pdf.) The most important trade partners for Finland were South Africa, Nigeria and the Democratic Republic of Congo. Exports consisted mainly of industrial products and devices such as machinery, telecommunication products and paper products. Imports consisted mainly of raw materials such as metals. (Kauppaselvitys Saharan Etelänpuolinen Afrikka, 2008).

In short, many of the SSA countries are fast emerging and growing economies and their demand is growing in various fields of economy. The Finnish foreign ministry

predicts that Finnish companies could have potential also outside the telecommunication and ICT products; there could be potential for fertilizers, paper products, tourism, consumer products and pharmaceutical products (KauppaSelvitys Saharan Etelänpuolinen Afrikka). Finnish companies could also develop their imports of agricultural products. The growth of SSA could provide exceptionally good prospects for Finnish companies in the finance and construction business. The global climate change, which will probably hit hard in Africa, could also provide opportunities for specialized Finnish companies. It will also be a matter of time before sourcing and sub-contracting types of business will reach Africa.

Despite the tremendous business prospects in many industries in Africa, only few Finnish companies have woken up to the reality and recognized opportunities in African markets. The theory of Johanson and Vahlne (1977) is relatively suitable in analyzing the less active role of Finnish companies in SSA. Johanson and Vahlne suggest that internationalization of the firms is a gradual process and is influenced by market knowledge and commitment. Their theory emphasizes that firms would first start their foreign operations with low risk and indirect modes to “psychically close” markets. Over time and through experience, firms would increase their market commitment which in turn would improve firms’ market knowledge leading to further commitment and more distant markets (Johanson and Vahlne). Considering the fact that Finland was a relatively closed economy in the 70s and 80s and started to globalize and open fully to international trade in the beginning of the 90s, this theory could be quite helpful. One can argue that a less active role of Finnish companies can be partially explained by reasons such as that there have not been enough experienced and committed companies to penetrate SSA. Finnish companies have not possessed enough international experience to be committed to penetrate African markets. In addition, pull factors which according to Luostarinen pull foreign firms into markets have been less effective earlier in SSA due to protective and underdeveloped markets hostile towards foreign companies.

In addition, psychic/cultural distance can be seen as one reason for low presence of Finnish companies in Sub-Saharan Africa. Barkema et al. (1996) state that companies meet cultural barriers while entering new markets especially in the case of FDIs or equity modes of entry and the stronger the sense of distance the different the culture is

from the entrant company's host culture. Klein and Roth (1989) note that reasons behind strong psychic distance are higher risks and lack of knowledge. This could be one additional factor explaining poor integration of Finnish companies to SSA. After all, lack of knowledge creates wrong perceptions and prejudices. However, Klein and Roth state that experience of international markets is a factor reducing psychic distance. Barkema et al. add that previous experience in one country can be utilized further in the same cultural block. This indicates that companies operating in one SSA country could gain knowledge and experience to reduce psychic distance and further commit a smoother entry to another SSA country.

2 Theory of Literature

2.1 *Institutionalism as an approach to meet business challenges in SSA*

Conducting business in Africa and in developing countries in general is more challenging than it is in the so called industrial world. According to the World Bank's Doing Business Index (www.doingbusiness.org/EconomyRankings), most of the SSA countries are at the bottom of the list that scrutinizes economy and business environment of the different countries. However, South Africa and Botswana were both ranked quite high (32nd and 38th position) on the list, even higher than some of the EU member countries. African economies are in many ways exceptional compared to societies in Europe or Asia. Nwanko (2000) claims in his research that the African marketing environment is often taken for granted by foreign companies who make too broad generalizations concerning the area and neglect recognizing special characteristics related to the African context in business. This study aims at concentrating on contextual factors and postulates that these factors play a crucial role in the success of SSA markets. Since contextual factors are in focus, institutional theory is applied in this study.

2.1.1 Development of institutional theories

Institutional theories started to develop in various schools of social sciences already from the late 19th to the mid 20th century (Scott, 1995). There are different factions in institutional theories. Old institutionalism is often associated with historical institutionalism whereas new institutional theory focuses on two different strands; firstly, it concentrates on developing a sociological view of institutions – the way they interact and affect society (Karhunen, 2007). Secondly, the other strand is in economics which is widely studied by economic historian Douglas North (1990).

The institutionalists vary in the extent to which they focus on different features of the institutional framework. Some, such as DiMaggio & Powell (1983); Scott (1995) and Oliver (1991) focus on institutions in organizational analysis. Their one main remark is that institutions are industry and/or field specific. North's (1990) approach to

institutions is transaction costs based. He argues that all firms try to reduce their transaction costs and that uncertainty in the firms' environment increases their transaction costs. North states that institutions are the ones to create "rule of the games" that reduce uncertainty. These different tendencies in the institutional research field will be discussed in further parts of this study.

The institutional approach in analyzing competitiveness becomes particularly useful, because it acknowledges the contextual factors unlike other theories. For example Porter's (1985) theory of competitiveness simply neglects the external factors affecting companies and their competitiveness. The model of five forces does not recognize all factors that could be crucial to the competitiveness of companies. Porter's framework expects that companies are in a kind of vacuum in their competitive field, although there are other factors having an impact directly on the company's competitive advantage. For example, legislation imposed by local government can favor some companies at the expense of others. In addition, according to Karhunen and Kosonen (2008), traditional strategy research such as Porter's theory sees that strategic choices are driven by firm-specific resources and capabilities without recognizing the institutional framework which decision-makers confront.

Furthermore, Porter's model assumes that competition in the industry is fair and square, although it probably never is, especially in the case of SSA where perfect information among players in the industry is seldom available. Kerber (2006) sees that companies actually compete in knowledge, which is another basic assumption of the knowledge-based view of the theory. He emphasizes that institutions are the ones influencing how knowledge is acquired. Consequently, institutional theory becomes useful in this research context, because institutionalists do not support neo-classical assumptions of perfect competition and unique equilibriums or the determination of preferences on an individual basis (Karhunen, pp.22).

2.1.2 Basic assumptions of different institutional views

The basic assumptions of different views of institutional theorists are rather different from each other. New institutional economics which, as mentioned above, is the perspective of Douglas North, assumes that firms try to minimize transactions costs to gain better efficiency in the markets. According to North, increased transaction costs are result of uncertainty, and institutions provide the basic structure to attempt to reduce this uncertainty by establishing a stable structure to human exchange, whether political, social or economic. Therefore, by adapting to the institutional framework, notably to formal and informal constraints, an economic actor, in this case a foreign entrant is able to lower its transactions costs and to increase efficiency in the market. In addition, at least the formal but perhaps also informal constraints create inefficiency because they serve the interests of those with the bargaining power to design new rules and which can further be contradictory with interests of foreign entrants (North).

The other group of institutional theorists such as Oliver and Scott tend to look at the institutional framework from the perspective of sociology and organizational analysis. According to Oliver, “Institutional theorists place particular emphasis on legitimation processes, the tendency for institutionalized organizational structures and procedures to be taken for granted (1992:563)”. In other words, the organizational view of institutions sees that firms are seeking legitimacy in a given institutional context and that institutions lead to a situation where the pattern of behavior is determined by institutions or is left to be determined by institutions. This view is greatly different from the view of new institutional economics since it puts emphasis on legitimacy instead of economic efficiency. Thereby assumptions of these two views are contradicting each other, because behavior chosen by some particular firm in order to seek legitimacy is not necessarily the most effective one, but the one the firm is used to (North, pp. 3-4).

However, the views of new-institutional economics and the socio-organizational faction of institutionalism are not contradicting each other because according to Peng (2003), company efficiency and legitimacy can be sought at the same time. Peng merges both assumptions of these two different views presented above into one assumption. Later in this study it will be tested which of the three different assumptions applies to the companies of this study.

2.1.3 Definition of institutions

According to North (1990:3; 6), institutions are “the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction.” The whole idea of institutionalism is that they do matter and must be taken into consideration. North states “that the major role of institutions in a society is to reduce uncertainty by establishing a stable structure to human interaction”. Peng (2002) states that uncertainty is reduced because institutions interact with institutions by signaling them which choices are acceptable and supportable. In other words, institutions set up a framework for organizations where to perform.

An institutional framework consists of informal and formal constraints (North 1990). According to North, formal constraints include political rules, judicial decisions and economic constraints while informal constraints include social norms, customs and culture. Karhunen (2007) notes that the distinction between informal and formal constraints is complex, because it can be difficult to categorize constraints since they can have both formal and informal features. But North (1990) suggests that when formal institutions fail to serve organizations, informal ones will play to reduce uncertainty for the part of the organizations. Consequently, one of North’s central notions is that formal and informal rules act at different speeds, meaning that formal rules can change overnight whereas it takes longer for informal rules to change (Karhunen, pp.12).

2.1.4 Institutional isomorphism and legitimacy

One of the key assumptions of new-institutionalism is that organizations in a field become increasingly homogenous over time (Scott, 2001). This process is referred to as institutional isomorphism (Karhunen). Institutions are, however, field- and industry-specific, because macro-institutions are leveraged to organizations through field level structures (Scott), whereupon the institutional isomorphism varies from industry to industry. According to DiMaggio and Powell (1983:153) “isomorphism is

a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions”. In other words, the institutional framework sets the rules for organizations to work and as a result they start to resemble each other. In a business situation, it can for example force all foreign companies to set up joint ventures, because of, say, some country-specific law. In addition, DiMaggio and Powell state that isomorphic pressures arising from firms’ external environment and internal practices and routines impacts the choice of organizational structure.

According to DiMaggio and Powell (1983:155,156), organizations compete not just for resources and customers, but also for political power and institutional legitimacy for “understanding the politics and ceremony that pervade modern organizational life” Legitimacy means that organizations must be approved by local institutions in order to perform successfully in that environment (DiMaggio and Powell). According to Scott (2001:237), “organizations require more than material resources and technical information if they are to survive“. “They also need social acceptability and credibility”. In addition, Scott (2001:59-60) presents that legitimacy consists of different levels depending on the tacitness of the factors affecting legitimacy. However, this study will not scrutinize legitimacy any further since the focus shall be put more on the relation between legitimacy and entry-mode.

2.1.5 Strategic responses to institutional pressures

Another main area of concentration of neo-institutional organization theory is its focus on interaction between organizations and their environment. When firms enter a specific institutional environment they face both formal and informal constraints which force them to respond. Oliver (1991) proposes five categories of strategic responses that organizations could make in response to institutional responses. She claims that these responses vary with respect to the level of resistance to pressures from passive to active and labels them as acquiescence, compromise, avoidance, defiance and manipulation. Oliver’s main contribution to new institutional theory is that organizations play an active role by interacting actively with institutions. This notion is further used in Peng’s theory which will be presented later. Oliver also

presents that there is a likelihood of different organizational responses to the nature of the institutional context and institutional pressures (Karhunen, pp.13). Therefore, concentrating on just one industry, ICT, this study will yield information from one specific institutional context.

Acquiescence is a passive strategy, because using it a firm agrees to institutional pressures (Clemens and Douglas 2004). Compromising means that firms balance the expectations of multiple constituents. Firms can for example negotiate with regulators to obtain a mutually agreeable solution that meets the intent of the regulation at a reduced cost. In an avoiding strategy, firms can choose not to install fire alarms to all the office rooms because it estimates that the cost is not equivalent to the possibility of fire.

If a firm chooses to defy it, it can try to ignore institutional pressures or for example deal with request with attorneys. Manipulation is the most active way of responding to institutional pressures so that firms try directly to influence prevailing institutions. Nonetheless, the institutional environment affects differently in different places where conditions are not similar. After all, conditions do have a significant meaning in strategic responding (Clemens and Douglas).

2.1.6 Effects of institutional pressures on strategic responses

Oliver (1991) identifies five institutional factors which work as antecedents of strategic responses which are Cause, Constituent, Content, Control and Context. She defines Cause as purposes behind the institutional pressures for conformity and that those companies that feel the most pressure to conform social or economic norms would present active resistance.

Oliver states that organizations face several pressures from a variety of entities including the state, professions, interest groups and the general public. These, among others, are entities that exert institutional pressures on the organizations. This factor that explains who is exerting those pressures on the organizations is called the Constituents factor. Oliver discovered that the more there are different constituents

and the less the organization is dependent on them the greater it will show resistance to institutional pressures.

Content refers to an issue which norms or requirements organizations need to conform. It represents the extent of consistency of institutions with an organizational goal (Oliver 1991). Oliver indicates that firms would choose less active strategies when institutional goals differ from organizational goals. Oliver (1991:150) defines Control as “the means by which pressures are imposed to organizations” In other words, how institutional pressures are imposed. Oliver argues that the stronger the pressure associated with Control the stronger is the firm’s preference for less active strategies. Oliver defines Context as the conditions within which institutions are being exerted. She argues that organizations are more likely to conform with institutional pressures when the degree of interconnectedness is low.

2.1.7 Institutional aspect of business strategy

Peng (2000:44) states that the earlier market-based institutional framework has been taken for granted and that greater emphasis has been put on task environment. According to Peng (2002), institutions greatly affect strategic choices; formal and informal constraints of institutional framework are factors that firms need to take into consideration above industry conditions and firm-specific resources. In other words, institutions affect companies’ decisions by creating certain boundaries the companies need to conform to. Consequently, firms are not affected by environmental determinism whereas strategic choices are driven by both firm preferences and institutional constraints.

Peng’s contribution to institutional theory is salient and therefore his approach to institutions will be used as a theoretical framework in this study. Peng’s framework is useful in this study because it merges both North’s views on new institutional theories and views on transaction costs and formal and informal rules with organizational analyses of scholars such as DiMaggio and Powell, Scott and Oliver.

The table below conceptualizes Peng's theory of how institutions and organizations impact strategic choices. It shows and represents an institutional perspective on a business strategy that focuses on the dynamic interaction between institutions and organizations, and defines strategic choices as the outcome of such interaction (Peng, 2000:45). Strategic choices are still a very broad concept and can basically refer to any strategic decision taken in the organizations. Therefore, I will concentrate on and use Peng's view as a base of theoretical framework in this study.

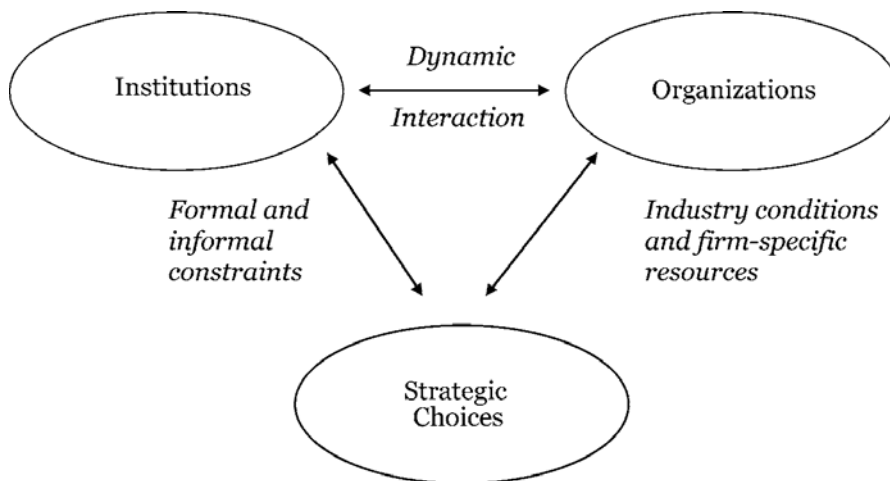


Figure 3 Business strategies in transition economies

Source: Peng, M.W. (2000). Business Strategies in Transition Economies: p. 45

Numerous studies that have been made in the institutional field concentrate on emerging economies in Eastern Europe, Russia and Asia, especially various studies of Peng, but not much attention has been given to Africa yet. These studies have acknowledged that different kinds of institutional environments create challenges for foreign and local companies that they need to take into consideration in their strategies and overall behavior. These challenges include relations to the public sector, bureaucracy, corruption and different kinds of legal constraints. The socialistic background still has an effect on those countries where informal rules still prevail, for example business networks. The general result of these different challenges coming from weak institutional frameworks leads basically to a situation where foreign firms integrate very cautiously into those markets. Briefly, institutional relatedness affects for instance ownership and the scope of the firm (Peng et. al. 2004; Peng et. al.2005).

2.2 *Market entry modes*

The choice of market entry is to facilitate the firm's international market entry for specific foreign market entry (Albaum et al. 2005:251). The authors state that market entry should be consistent with the company's strategic objectives. Albaum et al. do not mention the fact that sometimes these strategic objectives can be contradictory to institutional pressures which ultimately companies need to conform to in order to gain legitimacy in the markets. Davis et al. (2000) found that entry-mode would be dependent on both internal (parent) and external (host country) institutional pressures.

Meyer (2001) for instance emphasizes that the role of institutions in entry mode choice is often stronger in environments where the institutional framework is partially reformed, that is unstable and inconsistent. Consequently, assessing the institutional framework becomes even more helpful when entry mode to Sub-Saharan Africa is assessed.

Albaum et al. (2005) categorize entry modes roughly into export and non-export modes. Export modes are further categorized into indirect and direct export depending on existing local or foreign middlemen. Other non-exporting modes of entry include licensing, franchising, assembly operations acquisitions and Greenfield investments and joint ventures (Albaum et al. 2005). Entry modes can also be categorized as equity modes and non-equity modes (Pan and Tse, 2000). Equity modes consist of joint ventures and wholly owned subsidiaries whereas non-equity modes consist of different export modes and contractual agreements, such as licensing, franchising and R&D contracts (Pan and Tse). Increased complexity often demands more involvement that further on increases the possible risks. Therefore also institutional pressures can be stronger in cases demanding higher involvement such as joint ventures and green field operations than for example in indirect exporting.

2.3 *Role of the institutions in foreign entry*

There is no doubt that the market entry-mode choice is a critical element for foreign companies who are considering foreign expansion (Rodriguez et al. 2005). An entry-

mode decision notably defines a company's resource commitment, investment risk, degree of control, and a share of profits from international operations (Davis et al. 2005). The study of foreign entry-mode choice have been strongly dominated by a transaction cost theory that focuses mainly on the impacts of firm- and industry-specific factors on the choice of entry mode, but considering country-specific contextual factors as constant or less important (Yiu and Makino, 2001). Institutional theory becomes particularly relevant because it concentrates on contextual factors influencing entry-mode decisions (Yiu and Makino) and draws attention to non-market constraints and pressures (Davis et al. 2005). This approach becomes particularly relevant in the SSA context, because its institutional environment differs greatly from the Western or Finnish corresponding environment. Consequently, the institutional view on market entry is a valid approach, because institutional forces have two major implications to entry choice by influencing entry-choice at different levels and in different magnitudes (Yiu and Makino).

Effects of institutions on market entry strategies

Institutions affect market entry strategies and more closely entry mode choices in various ways. Meyer (2001) shows that institutional frameworks affect entry mode choices of the firms through transaction costs that companies need to adjust when considering entry. Meyer argues that Western firms entering emerging markets face high transaction costs because they lack information about customers and local partners, they have to negotiate with agents inexperienced in business negotiations, and they face unclear regulatory frameworks, inexperienced bureaucracies, underdeveloped court systems and a corrupt business environment. It is important to emphasize the fact that uncertainty may be perceived higher by a foreign entrant than by a local actor, because local actor possesses more information. In addition, Meyer states that firms can also face post-entry transaction costs in terms of weak protection of intellectual property which will additionally increase uncertainty among foreign entrants.

Meyer (2001:365) states that: "the institution of an economy determines the pattern of transaction cost." He further continues by describing how volatile and inconsistent institutional frameworks create transactions to local environment to which foreign

entrants need to adjust. Meyer's approach to institutions is the same as North's who sees the effects of institutional framework from the transaction cost perspective, which was discussed earlier in this study. According to Meyer, rapid institutional change creates uncertainty and lack of information that results in high transaction costs. Formal constraints are one source of uncertainty (North), especially this could be the case of SSA since institutions and formal constraints such as legislation are not always stable and can change rapidly creating uncertainty upon foreign entrants, because rapidly changing institutions may create inconsistencies between requirements of organizations at any point of time (Meyer). Informal constraints are also a source of uncertainty because they are less transparent than formal constraints since foreign entrants and investors can observe most aspects of the formal institutions are informal constraints harder to detect (Meyer and Nguyen, 2005).

Meyer found that institutional progress, which he defines as a change towards a more Western type of institutional framework, encourages firms to prefer full ownership modes, because transaction costs thereby decrease. The problem with Meyer's approach is that he does not specify properly enough how and which institutional factors (Meyer does not use concepts of formal and informal constraints or forces) affect market entry choice and he simply states that high transaction costs are primary determinant. Firstly, transaction costs might be low but specific legal constraints can dictate the market entry mode, for instance by excluding ownership modes. Secondly, it can be difficult to value how much informal constraints such as cultural constraints add to transaction costs of foreign companies. Nevertheless, transaction costs are an important factor in entry-mode choices and earlier research of international entry-mode choice decisions have largely concentrated on the role of transaction costs (Brouthers, 2002).

Effects of institutional pressures on market entry strategies

One way to more closely examine the effects of institutional framework on market entry strategies is to analyze how institutional pressures that are exerted on foreign entrants affect their entry strategies. As discussed before, Oliver (1991) defines factors that create institutional pressures such as Cause, Constituents, Content, Control and Context which are closely explained in the beginning of the research

(section 2.1.6). Although we are not going to go deeper than this into explaining how each of these factors affect market entry strategies, it is still important to realize that these pressures which stem from the institutional environment have an effect on strategic choices of companies. Davis et al. (2005) argue that isomorphic pressures stemming from both internal and external sources have an important impact on the entry-mode choice and structures that firms pursue. In this study, greater emphasis is placed on external factors and pressures. However, business units which operate under their parent organization's network are also subject to institutional pressures that stem from parent organizations (Kostova and Zaheer, 1999).

The approach taken by Davis et al in their study is similar to Peng's theory of how institutions and organizations affect firms' strategic choices. In this study, the focus is on market entry-mode choices. The difference is that all authors, Peng and Davis et al. express the same phenomenon slightly differently. Peng explains how institutions affect market entry choices (strategic choices) through formal and informal constraints, whereas Davis et al. discuss external forces affecting market entry-mode choices. These external forces can be understood as a part of institutional pressures which Oliver defined as cause, constituents, content, control and context.

Oliver's approach regarding effects of the institutional environment on company strategies is not very different from Peng's approach. Peng sees that formal and informal constraints have an affect on market entry strategies or, to be more precise, on entry-mode choices (strategic choices) while Oliver's approach to the same phenomenon is institutional pressures. Some factors of these pressures are similar to the formal and informal constraints. For example, constituents which Oliver defines as state, professions and interest groups can exert similar kinds of pressures on entry strategies and have an effect similar to that of formal constraints. The difference between these two approaches might be that Oliver (p.152) explains how companies respond to pressures that are exerted upon them. In other words, the company can try to actively influence their institutional environment, for example in cases when institutions negatively affect their desired entry-mode – companies can try to seek some sort of compromise. Western companies should be aware of the importance of negotiations in business not only in Africa but in the Third World in general (Cavusgil and Ghauri, 1990:17).

Clemens and Douglas (2004) argue that each pressure factor defined by Oliver has an effect on a company's strategies. Clemens and Douglas found that the greater the pressures associated with any, Cause, Constituents, Content, Control or Context, the stronger a firm's preference for less active strategies. This indicates also that if companies feel strong institutional pressures they might want to pursue more exporting, licensing and franchising modes than acquisitions and Greenfield investments. It sounds reasonable that the more complex the environment gets the less active entry-modes company chooses. Oliver's approach is a good addition to Peng's framework, because Peng does not present any ways of how companies could respond to its institutional framework, whereas Oliver does not make a distinction between what is formal and informal in this context and how this affects companies. One can also relate these two approaches of institutional constraints and pressures together by making an assumption that institutional constraints create pressures which affect the final choice of the market entry strategy. Furthermore, firms are also thereby able to react to these pressures exerted upon them.

Summary of institutional effects on entry-choice mode

There have been some studies of impacts of institutional environment on market entry strategies. Davis et al. found in their research that companies that are more influenced by host-country characteristics, that is, a local institutional framework are more likely to use export as their entry mode. Yiu and Makino found that multinational enterprises choose more likely joint venture over a wholly owned subsidiary when regulative and cognitive pressures increase in a host country. This indicates that foreign entrants prefer less control demanding entry mode while institutional constraints are stronger. This is noted also by Clemens and Douglas who argue that foreign entrants, who are affected by stronger institutional pressures, prefer to aim at a less active involvement in a host country. Meyer makes similar assumptions by stating that entrants prefer to establish more likely wholly-owned subsidiaries in economies where institutional progress is highest.

There have been other studies arguing that institutions have an impact on the choice of local partners. Meyer and Nguyen (2005) state that the institutional framework

establishes which options are permitted in a given institutional context and that it influences foreign investors so that they may be required to have a local partner. Meyer and Nguyen refer to findings of Peng and Heath (1996) and Kock and Guillén (2001) by stating that especially in network economies, networking capabilities may be a vital asset for business since local partners are those possessing such network capabilities. Uhlenbruck et al. (2006) state similarly that a local partner belonging to local markets offers foreign entrants ways to overcome market entry barriers such as corruption. Uhlenbruck et al. found that a local partner reduces uncertainty associated with delivering information and knowledge on how to deal with issues related to corruption. However, there is no doubt that a foreign partner could reduce uncertainty relating to other constraints by providing knowledge of local environment and easing the entry of a foreign company.

According to Uhlenbruck et al., a local partner can be used as a buffer against corruption, but the local partner can probably also be used to overcome some other constraints arising from the local environments. Studies of Uhlenbruck et al. and Meyer and Nguyen are both done within a context of emerging economies, and thus one can in further parts of this study evaluate to which extent they match SSA countries that can be regarded as emerging economies. Both Uhlenbruck et al. and Meyer and Nguyen have evaluated the role of local partners from the perspective of equity entries, but local partners might also be similarly significant to companies using non-equity modes of entry or companies using non-equity modes of entry could ally with other companies in similar situations or use some other type of outside help.

2.4 Effects of entry-mode choice on legitimacy

In this research context, institutional constraints are not the only factors affecting market-entry strategies and entry-mode choices. Issues related to legitimacy should also be taken into consideration. Kostova and Zaheer state how the lack of legitimacy may act as a barrier to entry, because legitimacy can be seen as acceptance and approval of a foreign company by its legitimating environment. In other words, legitimacy is the right to do business in the new market (Yiu and Makino). The complexity of the institutional environment makes it more difficult to establish and

maintain legitimacy (Kostova and Zaheer). The complexity relates to the assumption that legitimacy is composed of different domains reflecting different types of institutions: the regulative, the normative and the cultural cognitive pillar (Scott, 2001:59-60). Each of these factors impact legitimacy differently.

The regulative, the normative and the cultural cognitive pillar differ from each other in their degree of formalization and tacitness – that is the degree to which they can be explicitly codified and how easily they can be made sense of by observing outsiders such as a foreign company (Kostova and Zaheer). Kostova and Zaheer suggest that a regulatory domain can be easiest to observe because it is formalized in laws and rules and regulations. The cultural-cognitive domain could be more difficult to observe because of its more tacit nature, and therefore legitimacy in the normative or cognitive domain might pose a challenge for companies (Kostova and Zaheer). In practice it can be very difficult for companies to be aware of normative and cultural-cognitive domains, not to mention of planning their strategies in accordance with those domains.

Rodriguez et al. (2005) claim that without legitimacy companies may have no access to valuable resources that are vital to survival and profitability. Thus, one can assume that whatever entry mode a foreign company chooses it has a further effect on the company's legitimacy. According to Yiu and Makino, companies choose their entry-modes primarily in terms of gaining legitimacy from both internal and external claimants. One can state that the entry mode represents “an organizational form appropriate for the firm's motivation to gain legitimacy in the relevant environments” (Yiu and Makino). However, it is important to realize that each institutional environment has different options for these organizational forms and that there can be several choices available.

Institutional theories also recognize a role of the company and its choice in the adaptation to the institutional context (Kostova and Zaheer; Oliver). In a complex environment such as in many African states these choices can be very narrow due to high and complex institutional pressures, but nevertheless each choice of mode has an effect on the company's legitimacy.

It is important to understand that legitimacy is constantly produced (Kostova and Zaheer) and therefore it needs to be maintained as well. In Sub-Saharan Africa this notion becomes even more relevant, because in Sub-Saharan African countries institutional environment is in many respects undergoing profound change. This adds additional challenges to companies considering market entry because one specific entry-mode can prove to be less successful in the future when the institutional environment changes alongside its constraints and pressures.

Kostova and Zaheer note that legitimacy is not always needed in order to survive over the long term, especially in the case of MNEs, because they have alternative sources of resources and organizational support. They might also have better bargaining power than smaller companies do. On the other hand, big MNEs and their subunits will be more vulnerable to attacks from different interests groups (Kostova and Zaheer). A foreign entrant might also be in a weaker position regarding external legitimacy than local firms are, because existing local firms do not necessarily require for instance the same government approvals and permits as a new entrant does (Uhlenbruck et al.). This indicates that legitimacy of the local firms can also be on a higher level than that of the foreign entrants, because local firms have been in the market for a longer time and maintained and developed their legitimacy.

Within this research context, I state that gaining legitimacy could be extremely important because Finnish ICT companies, excluding Nokia, do not necessarily have very many additional resources that they could afford to neglect the institutional forces and form their market entry strategies without conforming to environment rules. Gaining legitimacy in one specific SSA country can further increase a firm's experience and knowledge and further help to expand to other SSA countries and to gain local acceptance.

Institutional context and gaining legitimacy in that context has an effect even on competitiveness and competitive advantage. Consequently, it can be argued that a firm's sustainable competitive advantage depends on its ability to manage the institutional context of its resource decisions and basically to be aware of what institutions should take into consideration when a company determines its resource allocation (Oliver, 1997).

3 Theoretical Framework

The table below presents the theoretical framework of this study, which is modified from Peng's (see page 16) framework of business strategies in transition economies. In this study, affecting institutions are various institutions of SSA which can be understood as the institutional environment of SSA as a whole. Chosen organizations in this framework are Finnish ICT firms and strategic choices which this study concentrates on are entry strategies. The figure below visualizes how theories are applied in this study and how answers to the research problem are to be found. Formal and informal constraints presented in the theoretical framework figure answer the first research question of what the challenges and pressures of SSA are. In the figure, listed constraints such as (formal) legal barriers and (informal) behavioral norms and business culture (North, 1990) are constraints recognized in a previous theory of literature. However, the intention of this study is to describe these factors in accordance with the SSA context, but also to seek other possible constraints in the empirical part.

In order to improve Peng's view of how institutions affect strategic choices of companies and to find an answer to the second research question on how Finnish companies respond to pressures stemming from market environment of SSA, Oliver's theory (1991) of different tactics a firm can apply in order to influence its institutional environment is applied to the theoretical framework of this study. As can be seen in the figure, the options vary from passive conforming such as acquiescence and compromise to ways of active resistance such as manipulation and defiance. Oliver's antecedents of strategic responses are not applied to the theoretical framework of this study since this study focuses more on formal and informal constraints in explaining challenges and complexity of the institutional environment of SSA. Furthermore, one of Oliver's main statements was that the stronger the influence of the antecedents (Cause, Constituents, Content, Control, Context) the stronger is the preference for less active modes of entry. Similarly, one can state that the stronger the informal and formal constraints are, the stronger is the pressure for less complex modes of entry modes, for example exporting rather than local production.

The last research question of this study relates to the question of how to overcome different challenges of the SSA environment and how to gain legitimacy in that market. The figure of the theoretical framework visualizes that the legitimacy of the company is affected both by external and internal factors. In the picture, two arrows pointing to the legitimacy box are thereby used to describe and emphasize that legitimacy is affected by two different factors. After all, it was already discussed earlier how companies choose their entry-modes primarily in terms of gaining legitimacy from both internal and external claimants. In this study, the external factor refers to the institutional environment of SSA and the internal factor is a firm-specific characteristic such as organizational resources of a Finnish ICT firm. Both of these factors have an influence on how to gain legitimacy in those markets, thus this study will ultimately seek answers to the question regarding the extent to which the environment creates boundaries for legitimacy and the extent to which the company itself can affect gaining legitimacy in SSA.

This study focuses on the aspect of legitimacy and tries to seek answers to whether and how Finnish companies have built their legitimacy in the area. Nevertheless, this study will not ignore the view of the new institutional economics stating that firms are pursuing to lower their transaction costs in a specific institutional context in order to gain better economic efficiency. On the contrary, this study aims to look at the issue from the same perspective as does Peng, who states that legitimacy and economic efficiency through lowering transaction costs are not options excluding each others but that companies can try to achieve both of them. For example, conforming to formal and informal constraints of the SSA institutional environment can create efficiency by lowering transaction costs as North states in his theory, but conforming to some of the constraints could also create legitimacy, local acceptance. In the same way, company-specific or ICT industry factors can influence legitimacy or efficiency. For instance, the firm's own preference of entry mode can be the most efficient mode of entry for them since it does not always necessarily have to be in contradiction with the most efficient mode of entry preferred by the SSA institutional environment. Consequently, although Peng's view seems to be rational, it remains to be seen later in the empirical part whether this view also applies to ICT companies of the SSA institutional environment. To provide a better visualization of the theoretical

framework, a whole table is presented even though this study will not concentrate on the relation between Finnish ICT firms and entry strategy.

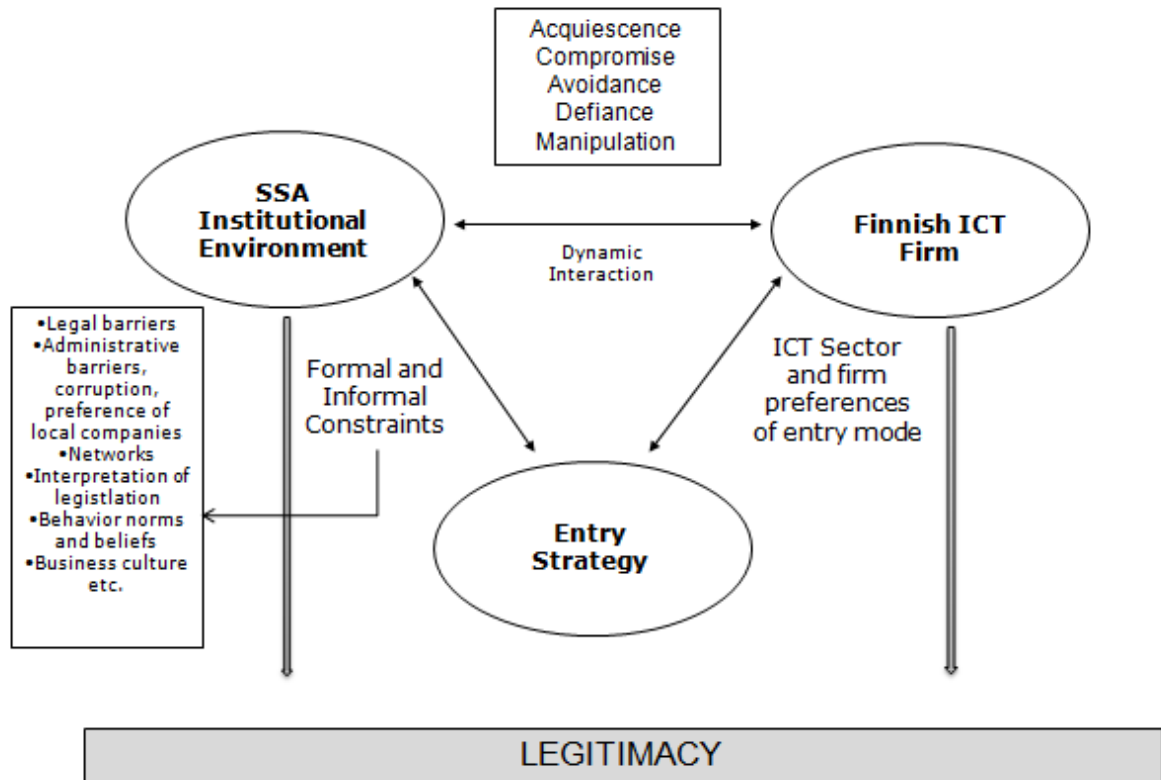


Figure 4 Theoretical framework

4 Methodology

4.1 *Method of data collection and analysis*

In this section, the research subject, the research methods and the data collection process are presented in order to clarify how this study was carried out. In addition, the choice of methodological approach of the study will briefly be explained.

General research approach

In this study, the chosen research approach is the qualitative one. The choice of this approach was quite natural because the use of the quantitative research approach often demands a lot of data which in this study would be difficult to find, because there are only a small number of Finnish ICT companies operating in SSA. In short, there are not enough sample companies for quantitative research. Therefore, using the quantitative research approach would most likely yield unreliable answers concerning my research problem. According to Silverman (2001:32), qualitative research is often used in the first phase of study in social and business research which is then followed by quantitative studies. However, some authors (see Erikson and Kovalainen, 2008) state that the link to quantitative research is not necessary and that the qualitative method of knowledge production can be equally adequate.

In this study, the realistic research view is chosen instead of the positivistic paradigm which sees that there is a single reality which is assumed to exist, driven by natural laws and mechanisms (Riege, 2003). The realism paradigm believes that there exists, although not completely apprehensible, a real world to be discovered and explained (Healy and Chad, 2000). The world of realism is basically situated between the extremely objective world of positivism and the extremely subjective world of critical theory and constructivism (Healy and Chad, 2000). In this study, the interest is therefore in the real world and in what really is happening there. According to Riege (pp.78), "Case studies commonly follow realistic modes of inquiry, because its main objective is to discover new relationships of relationships of realities and build up an

understanding of experiences rather than verify predetermined hypotheses”. This study is not an exception and the case study is a chosen method.

Research method

In this research, the case study is chosen as a research method. According to Yin (1994:13), “A case is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. Yin continues (pp.13) by stating that the choice of the case study approach is recommended when the researcher deliberately wants to cover contextual conditions which are believed to be pertinent in the research phenomenon. This statement indicates that the case study method is valid also in this research context by making the assumption that contextual factors of Africa’s business environment do have a meaning in companies’ strategic choices. This was also noted by Nwankwo (2000), who emphasized the contextual factors affecting foreign companies in Sub-Saharan Africa. Eisenhardt (1989) states that the case study becomes particularly useful when there is not much empirical evidence available and when a research phenomenon is not widely documented. This is the case also in this research context as discussed in the previous section, and therefore the case study method is an efficient research method.

Yin (pp.14) states that case studies can include either quantitative or qualitative evidence or a mixture of both. According to Yin (1994), the case study approach is suitable when the research aims at responding to the questions “What,” “How,” and “Why,” and at gaining a holistic picture of the phenomenon. According to Ghauri (2004:109), case studies are widely used in the international business research field. Ghauri (pp.112) gives a direct example of how he used the case study method in researching how the turbulent business environment in Eastern Europe has affected firms’ entry strategies. This clearly shows that the case study method is applicable also in this study.

According to Yin (pp.14), case study research can include both single and multiple case studies. In this study, multiple cases are used because companies face and experience different constraints that have had an effect on their market entry modes.

Yin also states that using multiple cases is a powerful source of information. Using multiple cases and from different countries of SSA will increase the credibility of the study, because despite the common factors of the SSA institutional environment, there are differences in constraints between different countries in the region. The multiple case study approach is used because it provides more information, not because it makes the results more generalizable.

Yin (pp.15) argues that one major factor of case studies is that they pursue to explain causal links in real-life interventions that are too complex for the survey or experimental strategies. For example, it can be argued that studied companies are not necessarily aware of all institutional constraints or they cannot see the link between some institutional factor and its consequence on their own choices, because the respondent cannot view necessarily himself objectively or “out of box” and cannot separate himself from the phenomenon, because he/she is an actor in that phenomenon scrutinized in the case. Thereby, a case study with more active participation allows the researcher to identify it if it seems that the case companies are not aware of all the institutional constraints and pressures affecting them and therefore could provide more reliable information than less active research methods such as statistical methods.

4.2 Case criteria

The choice of the case companies was based on the following criteria: firstly, selected companies are primarily concentrated on ICT industry or industry that is related to ICT. Secondly, all companies chosen need to have business activities in Sub-Saharan Africa. After all, it is useless to study companies that for example see SSA as a relevant target region in the future, but are yet only planning penetration there. Thirdly, these case companies need to be Finnish or at least have their headquarters in Finland. Due to the fact that this research is done in Finland, choosing Finnish firms becomes relevant and facilitates conducting the study. Finally, some companies were excluded from this study, either because their person responsible of operation in SSA is permanently located in a foreign country or because it has been revealed that the company has only performed as a subcontractor for a bigger foreign company that has

coordinated and committed the actual market entry itself. Based on the criteria below, the following four companies were chosen for further analysis: Omnitele, Jutel, SANAKO and Tramigo.

4.3 Data collection process

It has been rather challenging to find enough case companies and it has been difficult to find and approach those companies operating in the region. Not many ICT companies specifically mention that they are doing business in Africa whereas some companies with matching criteria are in fact leading their operation in the region from another country.

The data of this study was collected in the following ways, (which also may be overlapping):

1. Data of SSA institutional environment is collected from scientific journals and monographs
2. Latter information is collected from public sources such as company websites and annual reports as well as from special magazines that has made a story of the case company and their experiences in Africa.
3. First set of questions is prepared for an interview, a list of question is developed and in-depth interviews are conducted.
4. Interviews are coded, written down and additional questions developed and then sent to respondents by email in order to have more information or seek further clarification of some specific issue.
5. Findings from the interviews and additional answers are gathered and analyzed

4.4 Description of the interview process and the interviewees

All of the companies were first contacted by telephone or mail, then the purpose of the study was presented and a meeting was scheduled by email with company representatives. In many cases, the companies which initially were intended as targets

for this study were dismissed companies more suitable for this study were identified. In addition, many companies such as Lemcon, Eltel Networks, Vaisala and Anite refused or backed off from interview. In many cases after having had a session with one company they recommended some other company to be contacted. In this study, altogether seven in-depth interviews were conducted. Five of them were conducted with case companies and the other two were additional interviews of other companies that were not chosen as case companies but still provided essential information for this study. It is important to note that each of the interviews, excluding the one which was made by telephone, lasted one and a half hours. This allowed to gain much deeper understanding from the case companies and allowed more time for interesting topics to evolve.

In this study, the constructionist interview research approach was seen as the most applicable. According to Eriksson and Kovalainen (2008:80), the constructionist interview research approach “focus on how meanings are produced through the interactions that takes place between the interviewer and interviewee. In the constructionist interview approach, interviews resemble everyday discussions where the interviewer can take either an active or a passive role (Eriksson and Kovalainen, pp.80). One important feature of constructionist interviews is that the researcher uses their preplanned questions as initiators of conversation which can flow into many directions (Eriksson and Kovalainen, pp.80). Basically, when an interesting topic arose it was then further elaborated until moving on to the next question. In order to increase effectiveness of the interviews, research question frames were sent to the interviewees well ahead of the actual meeting. This kind of interview approach is likely to provide more information, because discussion was more free and less formal, furthermore it is important to emphasize that due to the fact that in the majority of the interviews there were more than one person present, the gained information was more resourceful than in case of just one person from each of the companies.

Weaknesses of constructionist interviews and in-depth interviews in general are that they are difficult to replicate. It is important to note that in-depth interviews are thus highly dependent on the ability of the interviewer to be as resourceful, systematic and honest as possible (Marshall and Rossman, 1999:135). This issue was, however,

tackled through practice for each interview and especially experiences from the first conducted interview helped to improve the interview tactics.

The following persons were interviewed:

Interviewee	Position	Company	Duration
Seppo Lohikko	Principal Consultant	Omnitele	1,5 h
Markku Virtanen	Principal Consultant	Omnitele	1,5 h
Karri Virkajärki	Vice President Marketing Strategy	Omnitele	1,5 h
Thierry Delarue	Strategy Planning and Insights		
	Nokia Middle East & Africa	Nokia	1 h
Kai Mattlar	Senior Account Manager	Jutel	1,5 h
Vesa Jaakkola	Senior Consultant/Owner	Cyrr Group	1,5 h
Kristian Ylinen	Senior Consultant/Owner	Cyrr Group	1,5 h
Raimo Körkkö	Senior Vice President/Partner	SANAKO	1,5 h
Arto Tiitinen	Senior Partner	Tramigo	1,5 h

4.5 Reliability and validity of the study

Validity, reliability and generalizability are concepts that provide a basic framework for the evaluation of research in business research (Eriksson and Kovalainen, 2008:291). Reliability refers to the extent to which a measure or procedure repeated yields the same results; therefore the question of reliability refers to consistency of the study (Eriksson and Kovalainen, pp.292). Validity refers to the extent to which conclusions drawn in research give an accurate description or explanation of what happened (Eriksson and Kovalainen, pp.292). Basically, if the study is valid, its findings are true and certain.

There are some ways to ensure the quality of the research. Riege (2003) represents the different tests and techniques for establishing validity and reliability in case study research. According to Yin, the criteria applicable to descriptive and exploratory case studies include two measures for validity, and one for reliability (Yin, 1994).

According to Yin (pp.33), construct validity is made during the data collection phase and can be increased in many ways. One way to enhance this criterion is to use multiple sources of information (Yin, pp.33). In this study, multiple sources of evidence within the cases are provided, but in addition to information yielding from

case study companies, additional information is collected to contribute to this study. This allows the researcher to verify information, but also to deepen the knowledge of the research phenomenon. An accessory in-depth interview was made with Cyrr Group - the only consultation company concentrating solely on Africa. Furthermore, an additional telephone interview was made with Nokia. In addition, having had access to the right and most informative respondent from each interviewed company has significantly improved construct validity of this study. Also, to foster construct validity and to improve accuracy of the interviews, secondary and alternative information of case companies was sought well ahead of the in-depth interview with each case company. This ensured a better understanding of the company and allowed more accurate questions to be asked during the interviews.

Internal validity can be impacted in the data analysis part. However, this type of criterion is used in other types of case studies (causal and explanatory) to assess the validity of the causal explanation developed in the case. Therefore there is no need to pay attention to this criterion in this study. After all, the research questions of this study do not aim to seek causalities, whether event x led to event y.

The external validity of case studies measures the generalizability of the research results to other cases (Karhunen, pp.84). This is different from other research methods, for example from surveys which aim at statistical generalization (Yin). This study aims not only to find similarities between cases, but also to compare case study companies and their experiences in different SSA countries with each other and to the SSA region as a whole. This is also the reason why each case in this study represented different Sub-Saharan African countries. Basically, this study tries to describe the institutional environment in SSA through taking various examples of specific SSA countries. Briefly, this study will seek similar results between the cases but also between cases and SSA. After all, it is impossible to find Finnish companies active everywhere in SSA, and therefore some generalization need to be done. However, in this study generalization is used to compare research results with previous studies and to connect findings to a wider theoretical framework.

It is also interesting to find out to which extent the institutional environment is similar in different countries of SSA. In addition, in order to increase external validity and

generalizability, case companies are chosen based on common factors, such as being Finnish, performing in the ICT sector and being active in several SSA countries. Therefore some commonalities in their market entry strategies and responses to institutional environment could then be generalized to other similar companies. According to Yin (pp.36), external validity is often a major barrier in doing case studies, especially if only one case is applied, and therefore several cases are used in this study to further increase external validity.

Yin (pp.36) notes that reliability in a case study means that if a later investigator followed exactly the same procedures as described by an earlier investigator, the later investigator should arrive at the same conclusions. In other words, the reliability measure aims at minimizing the errors and bias in a study (Yin, 1994). Interview questionnaires are therefore carefully documented in this study. Written documents of in-depth interviews were also documented in case further examination would be needed. In practice this means that all of the interviews were recorded and transcribed. In-depth interviews were also conducted in Finnish, which is the native language of the researcher and the interviewees, in order to avoid possible bias of interpretation from one language to another.

There are certainly many restrictions caused by the chosen method. According to Yin (1994), one of the strengths of case studies is their contextuality. However, when results are analyzed they may thus be taken out of context, which could alter some of the results. The choice of interviewees could also impact the reliability of the study as all the answers are subjective. According to Riege (2003), the case study method has been criticized for being more subjective than other research forms due to a direct contact between the researcher and the organizations or people examined. Interviewees were also representatives of the company and they could have wished to give a more positive perspective of their activities in SSA than it actually is or they may have wished to emphasize the positive viewpoints of their company. For example Thierry Delarue emphasized the transparency of Nokia, but “forgot” to mention that Nokia uses Congolese tin, coltan and cobalt in its devices and therefore directly finances one of the longest ongoing civil-conflicts and human rights miseries in Africa and on the whole planet. In addition, the interviewees could deliberately have concealed essential information concerning the study. I tried to tackle these issues by

acquiring secondary information of the case companies, for example via their own websites and other sources. Often asking more indirect questions or rephrasing the same questions allowed to sense more true feelings relating to some issues.

The next part of this study will concentrate on the empirical research that was conducted. First, the institutional environment of SSA will be introduced according to North (1990), consisting of formal and informal constraints. Then four company cases will be presented providing more detailed information of four example countries of SSA, after which the findings and discussions will be introduced.

5 Empirical Study

5.1 Institutional framework of Sub-Saharan Africa

It was discussed already earlier that an institutional framework consists of formal and informal constraints (North, 1990). Although there are great differences in institutions between different countries of SSA (Nwankwo and Richards, 2004), some common institutional constraints are identified based on literature and secondary data dealing with the SSA institutional framework. Therefore, before presenting the cases, main formal and informal constraints of institutional framework of SSA will be presented. The possible and additional country-specific constraints will be presented in a latter part of empirical study.

5.2 Formal constraints in Sub-Saharan Africa

The marketing infrastructure

Kinsey (1990) argues that in most of the developing countries and therefore in SSA countries, marketing infrastructure is underdeveloped and that commercial media, banking and financial facilities, physical distribution, research agencies and postal and other communications are generally under-represented creating additional costs and constraints on the organization. Kinsey continues by pointing out that both communications and physical distribution are in poor condition both in SSA and in developing countries in general. Therefore transportation facilities can often determine the extent of the market area. Nwanko (2000) gives an example in his research that poorly maintained roads add 17% to freight costs in Zambia. In Kenya, unreliable telephone and telex services reduce foreign exchange earnings by 2%. Kinsey (1990) further reveals that marketing channels are usually long, complex, highly fragmented and labor-intensive with products passing through various intermediaries. Because of the limited access to finance, for example retailers buy only small quantities from the wholesaler.

Fragile state environment

According to Peng (2002), formal constraints include political rules, judicial decisions and economic contracts. He further states that the lack of a legal framework is accompanied by the lack of political certainty in those countries. Czinkota (pp.101–102; 2008) states that firms usually prefer to conduct business in a country with a stable and friendly political climate. Czinkota argues that there is political risk involved in every nation, but the level of risk varies from country to country. According to him, there are three major risks: ownership risks, which expose property and life; operating risks, which refer to state interference, and transfer risks, which are met when funds are to be shifted between countries.

Despite the fact that the IMF places only 14 countries on the list of fragile countries (see appendices), there are many other countries that are post-conflict countries, and therefore not necessarily very stable. In addition, many countries have internal turmoil and conflicts, for example in disputes in Nigerian Delta and in rebel activities in Chad. This should play a major role in strategic choices. Inequality and poverty are definitely factors that might create future instability, and the post-election crisis in Kenya in 2008–2009 is a typical example of this kind of development. Fragile state environments have implications for foreign businesses, too. A fragile state environment influences export guarantees. Although the Finnish governmental financing company Finnvera states that it issues export guarantees to most of SSA countries, it has still ranked the vast majority of these countries in the region as countries with poor creditability (Finnvera, 2008). This certainly has impacts on the cost of financing business deals in the region.

Bureaucracy

The role of the state is often very significant in Africa and affects business significantly. Next, some of the main formal constraints related to the state are analyzed. Shelley (2004: pp.18) argues how state bureaucracy is a severe problem in Africa; dealing with government agencies is very slow, inefficient and can be very costly. Shelley further continues: “What ever business you’re in, you will need far more licenses than anyone tells you or any kind of logic will ever dictate.” (Shelley,

2004:18). Procedures take three times longer than they normally would in Europe and therefore a great deal of patience is needed (Shelley 2004). One can expect that bureaucracy is something that will reduce interest and involvement of foreign companies. For example, one could expect companies to reduce bureaucracy by pursuing less active based entry modes instead of high active entry modes and perhaps tend to enter via a local partner to reduce involvement of different constituents of the bureaucratic environment. It is also important to emphasize that bureaucracy can be considered also as an informal constraint since bureaucracy is closely attached to social customs and culture which North categorizes to be factors defining informal constraints.

Legal constraints

One main legal constraint in SSA is tariffs, which are predominant foreign trade control mechanisms. Albaum et al. (2005:124) define tariffs as tax on imports which are commonly known to constrain international trade. In SSA countries, tariff percentage of all products is around 12 percent. Foreign entrants are interested in investment protection as well. A report named Economic Development in Africa (2008) reveals that SSA has among the lowest levels of investments protection and settling a business dispute can be particularly challenging. For example, according to the report in countries such as the Democratic Republic of the Congo, Malawi, Mozambique and Sierra Leone, settling a business dispute could cost up twice the amount of the debt.

Although there are evident legal constraints in SSA, African countries are making significant reforms in their business environment in order to achieve more foreign investments. For example Kenya and Ghana, but also countries in southern Africa, such as Madagascar, Mauritius and Mozambique, are committing broad-based reforms, including easing business regulations, procedures for property administration, licensing requirements and lifted regulatory obstacles that weigh heavily on the private sector (Regional Outlook:Sub-Saharan Africa 2008, IMF). A weak legal system might lead to increased informal procedures, because businesses cannot rely on formal ones.

A weak legal institutional environment has implications also for a firm's entry strategies. Where many legal restrictions occur, firms tend to use joint venture modes while firms entering the environment with less legal restrictions tend to use wholly owned modes (Brouthers). Although Brouthers concentrates on equity modes in his study, his results may indicate that firms would likewise rather export their products through middlemen than do it themselves if legal constraints are high in a specific environment.

Other formal constraints

There are some other constraints which also are common. Firstly, there are constraints related to education and staffing. There are plenty of good universities in Africa producing a great number of post-graduates who nevertheless often lack appropriate working experience. It might be difficult for foreign entrants to find either local or foreign staff that is qualified enough. Finding a reliable local partner or contact person might also be challenging. Shelley (2004), for instance, warns of trusting local partners too blindly and adds that scamming by workers or local partners is very common.

Constraints related to finance do also exist. Interest rates are higher in Sub-Saharan Africa than in any other region. Banks are more concentrated on financing the state than private firms that finance their investments with previous profits. Although foreign companies hardly rely on local banks, it might still be difficult to get financing from host countries and there might be difficulties getting export guarantees. Thirdly, one major infrastructural constraint mentioned in the IMF report (2008) was energy supply. Energy is expensive in SSA and companies are suffering from constant power outages which have negative effects on production. According to the IMF, the power sector needs urgent attention meaning that access to electricity needs to be increased, generation capacity needs to be scaled up and effectiveness of power utilities need to be improved.

5.3 Informal constraints in Sub-Saharan Africa

It was already discussed that North (1990) defined social norms, customs and culture as informal constraints. The significance of culture has been acknowledged in many studies, for example Hofstede (1980) indicates that organizational policies can lose their effectiveness when the cultural environment changes. Therefore, one can see cultural factors as an informal constraint to strategic choices.

The significance of cultural factors

According to Kinsey (1988:49), culture has far-reaching influences on the firm's marketing environment and affects all areas of an organization's operations, both internally and externally. Kinsey (49-55) argues for how culture has effects on demand, on the organization's public environment and on the macro-economic environment. Kinsey emphasizes how culture does have an effect on the marketing strategy and on the personnel along with other factors. It has significant meaning for the marketing strategy and for the tactics because culture will influence what is needed, how something is bought, who buys and decides to purchase. Therefore a marketing strategy must be implemented in accordance with a cultural framework.

Characteristics of African cultures

None of the SSA countries can be considered as national states. They all consist of diverse and differing cultures, both among themselves and among outsiders. Beugré and Offodile (2001) argue for how SSA is not a culturally unified region and is characterized by diversity, contrasts and contradictions. Jackson (2004) states that managers should take a cross-cultural approach to management in African countries because these countries consist of several different ethnic, tribal and religious groups.

Despite the tremendous diversity, Beugré and Offodile argue that there are some common features among African cultures. There are, for example, 42 different tribes in Kenya while the equivalent number in Tanzania is 120. These characteristics should be taken into consideration when foreign companies are considering entry to Africa. Beugré and Offodile identify the first common factor as respect for elders; Africans have great respect for older persons who they see as a source of wisdom. Beugré and Offodile identify a second characteristic as the importance of the extended

family. Family members are considered to have the moral obligation to help their family members, also in financial terms. The third major characteristic defined by Béugre and Offodile is collectivism; according to them group activities have always characterized African societies which shun individualism. Jackson adds that good social and personal relations are very important in African societies. Béugre and Offodile identify deference to authority as the fifth common cultural feature indicating that most Africans favor absolute obedience to the authorities.

There are also some other important prevailing cultural norms in Africa. Greeting and shaking hands is very important and especially in the countryside people should always greet the elders. People are also sensitive to how one pronounces their names and they do not want one to be patronizing or to show prejudice, bias, or stereotypical beliefs. One should definitely avoid condescending behavior and try to value Africa's distinctive culture and heritage.

Culture as a constraining factor

From a business perspective, African culture can be challenging for foreign companies. Béugre and Offodile see that collective African cultures are intolerant of uncertainty which can be a challenge for a foreign company and its leadership, because for example government and companies' local staff can oppose anything that is new and unfamiliar, and resist change within an organization. Authoritarian leadership and a collectivist approach can negatively affect the entrepreneurship of local workers who expect to always get direct guidelines on how to perform. In collective cultures it can be difficult to find someone willing to take responsibility or admitting one's mistakes. Collective culture where a person is expected to share the profits with a larger family group can mean less incentive to work harder and be more successful (Béugre and Offodile).

Béugre and Offodile quoted Kiggundu (1988) by stating that work motivation can occur as a serious problem in African organizations, but note that the same factors that motivate workers in Western cultures are also important in Africa. Shelley (2004:76) for instance notes that workers with higher diplomas often want to participate in decision-making processes and states that African workers need similar incentives to

those of any other educated worker in the world. Jackson (pp.183) adds that in communalistic societies as in African societies, the barriers between community life and organizational life must be broken down in order to provide the workforce with a context for motivation and commitment.

In addition, foreign companies should understand to take a cross-cultural management approach in organizations with local staff as well as be aware of the existence of multiple stakeholders accommodating their interests. Multiple stakeholders do not refer only to family and tribe, but also to responsibility to the community as a whole (Jackson, pp.180).

Other informal constraints

Corruption

Corruption and networks were discussed in the context of weak institutions, but one can understand them as serious constraining elements as well. As noted before, corruption is deeply rooted in SSA societies. According to Shelley (pp.74), each of the companies needs to define its approach to corruption and rent-seeking behavior. It is important to emphasize that corruption is perceived differently in different countries; what seems to be bribing in Finland can be considered as harmless gift giving or relationship building somewhere else. A strict approach to corruption can also weaken a company's position in relation to other companies with a less strict approach. Companies need also to assess how a corruptive environment will affect them in the long run; a slack attitude might ease the company's activity in a specific place at first but might then restrict other opportunities in the future.

Pervasive and arbitrary corruption has a direct impact on entry strategies and decisions. Where corruption is highly arbitrary, firms cannot necessarily easily define their critical constituents which reduce the firms' ability to conform local institutional environment and thereby gain legitimacy (Rodriguez et al. 2005). Rodriguez et al. claim that companies entering environments suffering from highly arbitrary corruption are more likely to enter via a local partner than via a wholly owned partner, because it might reduce uncertainty related to arbitrariness. Entering with a local partner might as well reduce interaction with government officials and the risk of

meeting corrupt officials, because foreign firms are more often subjected to regulatory constraints than local firms are (Yiu and Makino). According to Mbaku, corruption in Africa has a strong bureaucratic nature that might indicate that corruption is more pervasive than arbitrary in Africa.

Pervasiveness reduces the likelihood that a company entering via FDI will choose a local partner, because the benefits from partnering are reduced and compliance/acquiescence with pressures to engage in corruption is expected (Rodriguez et al.). Partnering does not reduce the likelihood of costs of corruption. In a pervasive corrupt environment, legitimacy may be acquired by acquiring government consent (Rodriguez et al.). This external legitimacy and engaging in corruption can be a threat to an organization's internal legitimacy. Rodriguez et al. argue that companies that would enter a host country of high pervasive corruption from a home country with strict anti-corruption laws, norms and values would be more likely to enter via non-equity modes. Rodriguez et al. concentrated mainly on equity modes of entry, but their findings could be applicable analyzing non-equity modes, for example exporting. One can argue that a company would prefer more indirect or direct exporting when corruption is arbitrary, but prefer their own exporting when corruption is pervasive, because a domestic or a foreign middleman would not either reduce the chance of costs of corruption.

Personal relations and networks

It was discussed earlier how weak institutional environment encourages companies to find alternative methods to cope with an uncertain environment. Networks and personal relations are likely to occur in these environments and their significance in business should not be underestimated. Without the support of a domestic network or access to a local network, conducting business can get very complex and difficult. Ellis (2000) found that personal ties can facilitate market entry by providing connections, but personal relations are also useful for screening and evaluating potential exchange partners. In addition, in international business, some sort of social engagement is a prerequisite for ascertaining trustworthiness well in advance before commencing negotiations (Björkman and Kock, 1995).

Good social contacts and access to a network can be a way to acquire external legitimacy (Rodriguez et al.) but they can also enable entry modes which would not otherwise be possible, because of, for instance, lack of resources and information. For example, companies would prefer less active entry-modes if they would lack contacts in the host country, because highly active entry-modes demand more valuable contacts in an unstable environment such as in SSA countries. However, it is evident that the importance of a network varies from industry to industry and from country to country. Nevertheless, in communal cultures such as in African ones, social contacts should be seen as a vital tool for conducting business.

Time orientation

Harvey and Kamoche (2004) state that time should be considered as a critical strategic variable when doing business in African countries. Harvey and Kamoche quote Nayyar and Bantel (1994) by describing how the ability to perform in Africa as timely manner is associated with the organization's dynamic capabilities to distribute its assets timely and effectively by balancing the stock and flow of its resources.

In Africa, managing time may be challenging for Western companies, because the concept of time can vary dramatically between an African and a Western country (Harvey and Kamoche). Sayings such as "hakuna matata" in Swahili or "mora mora" in Malagasy refer to taking things easy and not rushing too much. Harvey and Kamoche claim that some difficulties associated with doing business in African countries by Western organizations are rooted in the difference of the time concept; urgency and the future perspective of time are often at odds with many African cultures. It is therefore important to understand nuances of different dimensions of time in African cultures and to understand that they have an effect on cross-cultural relationships (Harvey and Kamoche). Having an importance in relationships, we can expect also time issues to affect entry-mode choices, especially in modes of choice where entry is made together with a local partner.

5.4 Company cases

Snapshot of case companies

One common factor among the case companies seems to be that each of them regards Africa as their strategic target market and all of them strive to expand their operations in SSA. All of them have also been able to do business directly with the end customer without any middlemen. In some cases, some of them had a local partner but that was because of legislative reasons. Each of the companies is a specialist in its own industry and field of expertise, and most of them are investing heavily in research and development. None of the case companies has made direct investments in SSA and all of them use exporting as their primary penetrating mode to the area. However, in many cases it is part of the case companies' business not to engage capital while conducting projects in SSA.

Name	African Operation	Country	Year of Start	Turnover
Omnitele	Direct exporting	Angola	2003	8 million (EUR)
Jutel	Project exporting	Botswana	2002	3.2 million (EUR)
SANAKO	Project exporting	South Africa	2004	12 million (EUR)
Tramigo	Indirect exporting	Nigeria	2005	2.5 million (EUR)

Table 1 Case companies

5.4.1 Market environment of examples countries

To provide a broader view of the example countries' market environments, which further facilitates assessing the institutional framework of these countries, three different indicators are used. The Mo Ibrahim Governance Index ranks African countries based on various factors including Safety and Security, Rule of Law, Transparency and Corruption, Participation and Human Rights, Sustainable Economic Development and Human Development (<http://www.moibrahimfoundation.org/the-index.asp>). The Corruption Perception Index measures the perceived corruption degree among public officials and politicians (Transparency international, 2008). The scores of this ranking vary from 10 to 1 points, the higher the score point the less corruption prevails in the country.

The World Bank's Doing Business Index ranks economies according to their ease of doing business. A high ranking on the ease of doing business index means the

regulatory environment is conducive to the operation of business. The index is based on ten different factors, which are: starting a business, dealing with construction permit, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business (www.doingbusiness.org). Although this index mainly describes the circumstances faced by local companies, it is a useful measurement also in this study, since factors measured in doing business index all have indirect influence at least on foreign entrants. More information on these three indicators and SSA countries are available in the appendices. Above, rankings of example countries are presented and compared with each other. The comprehensive listings of all SSA countries are available in the appendices in order to provide outlook of the whole region. Although these indicators are relatively little detailed and vague, they provide good general insight to business environments.

Corruption Perception Index			
Case Country	Regional Country Rank	Global Country Rank	CPI Score
Botswana	1	36	5.8
South Africa	4	54	4.9
Nigeria	22	121	2.7
Angola	35	158	1.9

Table 2 Corruption Perception Index

Mo Ibrahim Governance Index	
Case Country	Regional Country Rank
Botswana	4
South Africa	5
Nigeria	39
Angola	44

Table 3 Mo Ibrahim Governance Index

Ease of Doing Business Index		
Case Country	Regional Country Rank	Global Country Rank
South Africa	2	32
Botswana	3	38
Nigeria	12	118
Angola	38	168

Table 4 Ease of Doing Business Index

5.5 Case 1. Omnitele in Angola

Omnitele is a telecommunications consulting company established in 1988 and operating in Helsinki. The company is relatively internationalized by having projects in more than 70 countries worldwide. The net sales of the company were 8 million Euros in 2007. According to the company's website, Omnitele has helped their clients to solve daily commercial and technical challenges. One of the company's core strengths is detailed technical know-how and solid business understanding. The company concentrates on three key consulting service areas, which are: operator product and service development; operator network and business development; and network planning and optimization. According to Omnitele's website, the company concentrates on small-medium sized mobile operators and their operating environment, their challenges and their ways of working.

Market environment of Angola

According to all three indicators used to analyze the SSA countries' market environment, Angola is ranked at the very bottom of the list. Angola's rank in Mo Ibrahim Governance Index is 44th position, leaving behind only Sudan, Chad, DRC and Somalia. According to Transparency international (2008), Angola ranked among the most corrupted countries in Sub-Saharan Africa and in the world and scored only 1.9 index points indicating that corruption is deeply rooted in Angola. The World Bank's Doing Business Index ranks Angola at the eleventh last position in SSA, at the 168th position in the world. Although Angola has committed some reforms, such as eased starting a business and dealing with construction permits, it has not been able to increase its position in the DB index. Based on these three indicators it seems that despite immense economic growth (16.3%, IMF 2008) which is fueled by Angola's vast oil and diamond reserves, Angola remains to be suffering from substantial poverty and remains to be an extremely difficult market environment.

Doing business can be very challenging in Angola for both local and foreign companies. Registering property takes approximately 334 days in Angola compared to 14 in Finland. Angola falls short also of forcing contracts and trading across borders, which are particularly important factors to consider for any firm. Exporting across

borders, which refers to required documents, time and cost to export and import, is very complex in Angola. For example, it takes 62 days for Angolan companies to finish the import process and the cost of importing is 3325 USD per container whereas the equivalent figures in Finland are 575 USD and 8 days. Briefly, trading across borders is both time-consuming and expensive in Angola. Enforcing contracts is also challenging in Angola: it takes over 46 different procedures. The duration of solving a commercial dispute takes over 1011 days costing on average 44.4% of the claim. To compare, in Finland it only takes 235 days and costs only 10.4% of the claim. One positive factor for foreign entrants in Angola is, however, its relatively good level of protecting investors which is above the global and African median (Doing Business, Angola country profile, 2009).

Although Angola still is suffering from the consequences of the civil war lasting for decades, it currently enjoys relative political stability with MPLA -Movimento Popular de Libertação de Angola being the dominant political party in the country. The greatest tasks for MPLA are to improve resource management, to restore credibility to public life and to cut regional economic imbalances where yet infant mortality stands at 26% and life expectancy is 41.7 years. Angola is deeply dependent on oil which accounts for 95% of the export revenue and more than half of the GDP. Angola also has vast diamond reserves and the country's hydro-electric potential and agriculture sector, notably cotton industry could attract high investment. In addition, there are major construction projects going on in the country which has attracted a few billion of foreign investment. Although it might take decades to overcome some of the challenges, Angola has all the raw ingredients to win the development battle. (Africa Report, 2009).

Ominitele's activities in Angola

According to company representatives, Africa is one key strategic target market and Omnitele is thus one of the few Finnish companies with experience of working in over ten different countries in Africa. Their primary customers in Africa had been local operators and regulators. Many of the projects have been singular but for example in Ghana and in Côte d'Ivoire the company is used to have long term partnerships. Their current long-term partnership is the Angolan-based teleoperator

Unicel. Omnitele penetrated Angolan markets for the first time in 1999 when their customer Unicel gained their license. During that time, Omnitele worked as sub-contractor for the Swedish telecommunications company Ericsson that was the responsible of building a network in Angola. Basically Omnitele consultants worked for Ericsson because Ericsson had staff shortages at that time and needed outside help in order to complete the project in Angola. During that time, Angola was a totally unknown target market in every level for company staff and executives. After finishing the project with Ericsson, a few years passed without any business in Angola, until 2003, when the Angolan part contacted Omnitele because they needed someone independent to evaluate the performance of the local network. Since then, Omnitele has been able to deepen and foster partnership with the Angolan partner through various projects. And today, several of its consultants are only involved in consulting Unicel with various tasks. It is important to note that Omnitele went to Angola because of pull factors of market and not because of the company had particularly planned to penetrate Angolan markets. It is also important to note that Omnitele was able to do business directly with the customer without using any local or domestic middlemen.

5.5.1 Case findings

Formal and informal constraints

Even though Omnitele is a consultant company and therefore probably less vulnerable to some characteristics of institutional environment, it has experienced various types of challenges both in Angola and in other African countries. The first challenge mentioned several times was the low level of infrastructure. In many other African countries one obstacle for business was that the networks are still underdeveloped and lacking capacity which therefore reduces competency. In Angola, however, network technology is very advanced, but the problem seems to be that the connection point to the international network is limited and therefore also lacks capacity. In terms of transportation, Angola was the hardest place for Omnitele, and due to decades of civil war, the overall level of infrastructure is low. Transportation is very challenging due to lack of proper roads. High costs were one emphasized factor in Angola, and due to the booming economy, costs of living are terribly high in Luanda – the capital of

Angola, and restaurants and hotels are very expensive and lack capacity. In the countryside, accommodation was also said to be very challenging from time to time.

There are several legal constraints mentioned by Omnitele consultants. There were problems related to customs and one major constraining factor is withholding taxes. From each invoice sent to customer a certain percentage of total sums is relieved and paid to government. Another clear constraining factor imposed by government is anti-corruption campaigns creating situations where business deals have to go via former tender process. Anti-corruption campaigns are common outside Angola, too, and create delays for projects because all foreign companies are tendered. This is the common case especially with state companies or companies where the state is a shareholder. Respondents experienced that decision-making is generally very slow in Angola. Although Omnitele consultants did not have any direct links to officials in Angola, they complained about the formality of the visa process and about the difficulty of obtaining visas to Angola.

Omnitele is not suffering from many informal constraints or they would not be able to identify any. Representatives acknowledged that corruption might exist in Angola but they have not come across it. This is probably due to the fact that as a consulting company, they sell a special kind of expertise and according to Markku Lohikko and Seppo Virtanen, their business is so similar everywhere in the world that competitiveness in their industry cannot be obtained through corruption. The company recognized that networks might exist in Angola and acknowledged that personal relations are very important in consultancy. In addition, Omnitele executives mentioned that in Angola and elsewhere in Africa local companies are not accustomed to the use of outside consultants, meaning that in local business culture consultants are not often used. This can also be a possibility for Omnitele, as Seppo Virtanen mentioned, because in Europe companies need consultancy to a certain niche whereas in SSA companies needs consultancy in a wider perspective.

There was also one clear factor which reduces Omnitele's business in Angola. It is difficult to find experienced staff willing to work in Angola for more than a very short period of time. Seppo Lohikko mentioned that because this company sometimes had to rely on "the second best" options.

Omnitele recognized that the biggest threat to their business is a fragile state structure. Although Angola is peaceful country, the future might be difficult to forecast. Seppo Lohikko mentioned that the company was previously forced to withdraw from Côte d'Ivoire due to a civil conflict. Changes in the institutional environment were seen as a threat by Omnitele. Seppo Lohikko concludes: *“Even long term partnerships can change and cease to exist when environment changes in some way, for example in our cases in Ghana and Côte d'Ivoire there were reorganizations in local companies; foreign operator acquires local operator when whole field changes, decision making changes and whole function of the operator changes – there were no longer need for our know-how.”* Basically if some foreign operator acquires Omnitele’s customer company Unicef that could mean end to their partnership. Nevertheless, both Lohikko and Virtanen emphasized the fact that the core of the business in Angola does not differ in any way from their business in other countries outside Africa. Consequently, due to the nature of consulting business and Omnitele’s strategy, the institutional environment in Angola does not have an effect on the company’s entry strategy in Angola, but this does not mean it would not influence Omnitele in other ways.

Strategic responses to institutional pressures

For a company such as Omnitele, the only way to adapt to the local environment in Angola is to comply with the local institutional environment as best as they can. However, one cannot state that Omnitele uses acquiescence tactics since it is not yet integrated enough in Angola to be aware of all possible constituents to comply with. Thereby Omnitele’s response strategy concerning Angola would be something of compromising. Basically Omnitele knows what is possible in Angola and what is not. When asked what they have learnt in Angola Seppo Lohikko responded that: *“Well, at least we have learnt a great deal of realism. We understand that a project that could be done within a month in Western Europe takes three in Africa and we have learnt to be aware of those factors relating to everyday realism”*.

This realism, which can also be understood as institutional framework or boundaries, which need to be identified in the very beginning of project scoping. Seppo Lohikko continues by stating that: *“One needs to understand that we’re in Africa and even if*

the basic needs of local operators are the same in Africa as in Europe, one needs to take reality into consideration, some things which are possible in Europe thanks to good infrastructure are not possible to carry out in Africa. One just needs to take this feature into consideration.” Omnitele is able to operate in those countries in SSA where it can comply with local conditions. For example Omnitele has been avoiding French speaking countries of SSA, because they do not speak French, and they also said that they would avoid going to Somalia, Zimbabwe or Nigeria because of weak security. To conclude, an environment with which Omnitele cannot comply is a total barrier for entry.

Legitimacy and overcoming constraints in Angola

In Angola and everywhere else in SSA, Omnitele aims at building long-term partnerships. In terms of sales, long-term partnerships are always more profitable for companies. However, while long-term partnerships aim at longer term cooperation, it has deepened the level of cooperation between Omnitele and Unicef and thereby at the same time deepened integration of Omnitele into Angolan markets. Omnitele's experience shows that a long-term partnership with same old customer is a better solution in terms of legitimacy in Angola than let us say short-term projects with different clients. Consequently, the possibility for long-term partnerships is one key factor for Omnitele in the target country decision. Karri Virkajärvi also mentioned that DRC, Nigeria and Somalia are countries where they prefer not to enter because of the bad security situation. But in addition, all these countries also have a very fragile state environment open to radical changes where commitment to long-term partnerships becomes impossible.

The first starting point for Omnitele to overcome some of the constraints in Angolan markets is comprehension of the market in which Omnitele has succeeded relatively well. To be able to understand market characteristics in Angola, Omnitele has been able to better assess the potential in the market. Omnitele was able to penetrate Angola without outside help, but apparently this was due to good earlier references which apparently can create one path to enter into markets. At the moment, Omnitele is a part of the export ring managed by Cyrr Group which assists Omnitele in finding the right partners and organizing meetings in SSA. One major constraint affecting

entry has been local networks and overall difficulty of finding customers and partners. In many cases, Finnish embassies abroad and consulates have been very helpful assisting Omnitele to open relations with African customers. Markku Virtanen explained that: *“I do believe that official backing has been very helpful because getting through is generally very difficult and thereby the help of embassy becomes very handy, because the call or letter from embassy opens the doors – the protocol is very important in SSA.”*

A major constraint for doing business in Angola for Omnitele was the difficulty of getting to the country fast when urgent need for Omnitele consultants occurs. Constant local presence would perhaps be a good way to overcome these issues and would signal that the company is committed to a specific partnership. Despite the importance of local presence, Omnitele’s biggest internal obstacle to long-term legitimacy in Angola is the lack of skilled staff. Seppo Lohikko described how sending staff to Angola is very difficult and how those who had gone there had had adaptation problems. Although there are few consultants working just with an Angolan partner which is a significant customer for Omnitele, it is clear that some of the consultation work needs to be done in Angola and not in Finland, because consultation is hand-in-hand doing demanding a face-to-face way of working.

In Angola, Omnitele rarely organizes extracurricular events or occasions to foster partnerships with local partners. Omnitele considers that its most critical success factor and way to deepen partnership has been success projects. Being able to meet customer expectations has been a key factor in Omnitele’s success in Angola. Omnitele felt that it is important to be able to create an atmosphere where the customer feels he gets enough value in return for what it has paid, unless there will be no future projects. One can state that for Omnitele, the first stage for long-term legitimacy is successfulness of consulting projects. Therefore internal factors relation to legitimacy become very determining because once Omnitele has difficulties in finding staff to be sent to Angola and have to rely more on “second best choices”, it ultimately has an effect on the outcome of the projects. Once one major determining factor to survival is quality, the outcome of the projects could be threatened if there are no correct persons available. The company would also become more volatile to competitors if local customers would obtain more incentive to change its partner due

to the fact that the other side of the partner could not provide enough value to that partnership and it would cease to exist. After all, another success factor for Omnitele has been that they are able to deliver the service that they have promised.

5.6 Case 2. Jutel in Botswana

Jutel is among the oldest and most experienced suppliers of digital radio broadcast solutions in the world. It was established in 1984 and its current head office is located in Oulu. According to their website, “Jutel provides the best and most innovative solutions for managing media assets, radio workflow and radio broadcasting content to various delivery channels.” Jutel’s primary product is called Jutel Radio Man which is a unique and complete broadcast content management solution. Jutel Radio Man can be absorbed for both major broadcasters and for small to medium-sized radio stations. These different product groups of Radio man are called enterprise edition and workgroup edition. In addition to these products, Jutel provides its customers with various types of service and maintenance. Jutel aims at providing its customers with the best and most innovative solutions and therefore heavily invests on R&D. The turnover of the company is 3.2 million Euros.

Market environment of Botswana

Compared to Angola, Botswana is totally different although both of these two countries’ economies are deeply dependent on exports of diamonds. Botswana is a leading country among other African countries in all of the three indicators used to assess the market environment of the case countries in this study. Botswana’s rank in the Mo Ibrahim Index is fourth after Mauritius, Seychelles and Cape Verde which all are island states. Botswana is also the least corrupted country in Africa and in 35th position in the world. In terms of easiness of doing business, Botswana is in second position in Africa and 32nd in whole world. Thanks to the long-lasting positive economic growth which has been exceptional compared to other African states with small populations, only 1.6 million people (CIA fact book, 2008) has helped Botswana to maintain its leading position in the economic development in the SSA region.

In recent years, Botswana has been able to conduct a series of substantial reforms which are also recognized by the World Bank since for instance Botswana was able to climb over 14 steps in the doing business index compared to the year 2008. Botswana has done especially well in protecting investors and after some serious reforms has changed its position from 110th to 38th in the world, which is exceptional in all terms. Botswana does especially well also in getting credit and registering property. However, in terms of enforcing contracts and trading across borders Botswana remains to be a challenging environment. Enforcing contracts last approximate 987 days with 28% cost of claim. For foreign companies, the cost of claim becomes most likely even higher. Thereby solving commercial disputes takes almost 4 times longer in Botswana than in Finland and costs twice as much. In land-locked Botswana, trading across borders is also expensive and time-consuming, as it takes approximately 41 days to finish the import process and costs around 3064 USD per container, almost as much as in Angola, which is over 5 times more expensive than imports in Finland. To conclude, although Botswana in many terms is an extremely easy target destination for foreign entrants – the penetration to Botswana can be partly very challenging, since exporting to Botswana can be substantially complex, both in cost and timely manner. In addition, although investor protecting is relatively high in Botswana, it is not necessarily enough for foreign entrants and especially for those needing local partner since in case of a possible dispute the resolution can require enormous amounts of time and resources (Doing Business, Botswana country profile, 2009).

The stabile continuation of real GDP growth of approximately 5% is expected to continue in Botswana due to the static diamond production that creates Botswana's main exports. Botswana is relatively dependent on electricity imports from South Africa and has been suffering from electricity shortages caused by power shortfall in South Africa. Botswana also pursues economic diversification by positioning Botswana as a global financial center and expanding tourism. Botswana is also starting to expand production of other minerals such as copper, nickel and coal and is on track to become a uranium producer (Africa Report, 2009).

Jutel's activities in Botswana

The primary customers of Jutel are located in Botswana and Egypt, but the company does have activities also in Kenya, Ghana, Namibia and South Africa. Jutel has also identified Africa as one of its key target markets. According to Kai Mattlar, this is due to the huge technological backwardness of radio broadcasting systems, but also to the extremely tight competition in European markets. Most European countries already have digital broadcasting systems. Hence, the business potential in SSA is seen as exceptionally tremendous by Jutel. Currently, the company aims at fostering its partnership with SABC which could allow a smoother entry to other Southern African countries.

Jutel's history in Botswana began in 2002 when the government of Botswana decided that they need a modern TV and radio house system and set up an international tender process. This tender was won by British Dega systems. Kai Mattlar has met executives of Dega systems at a particular trade fair, and afterwards it was agreed between these two companies that Jutel provides the software needed for this build-up. Briefly, Jutel worked as sub-contractor for Dega systems. Servers for software were installed in Finland, and when the system was built, it was sent to Botswana. The staff of Jutel then went to Botswana and helped in installation, build-up and training of the system. Jutel had, similarly to Omnitele, very little information of Botswana before entering its markets. It was likewise more pulled to Botswana's market than pushed away from it. The entry to Botswana can thus be considered coincidental.. The Radio Man System was built in 2004, and currently Jutel has two big customers in Botswana: Radio Botswana and the Ministry of Agriculture. At the moment, Jutel aims at selling more products and services for the latter one. Just like Omnitele, Jutel has been able to penetrate to Botswana and South Africa without middlemen and gained the customer contacts without outside help.

5.6.1 Case findings

Informal and formal constraints

Doing business is relatively much easier in Botswana than in many other countries in Africa. The World Bank ranked Botswana in its Doing Business Index as the third

easiest place to conduct business. Nevertheless, there are some clear constraints to market entries identified by Jutel. Bureaucracy is said to be the number one challenge making Jutel and foreign companies suffer in Botswana. Bureaucracy, such as tender processes, does not only slow things down significantly but it also exists in hierarchies in local organizations which slow down projects done jointly between foreign and local companies. In Botswana and likewise in Angola, bureaucracy in tender processes stems from anti-corruption campaigns, and each part of the process is carefully scrutinized, which creates extensions in the activities in the country.

As in Angola, withholding taxes exist also in Botswana and are at the level of 15%. One clear constraint in Botswana is low education and know-how level which certainly set certain limits for foreign companies, such as Jutel, involved in high-tech products. One tremendous problem that vicariously impacts foreign companies in Botswana is HIV/AIDS. The country has an estimated adult HIV prevalence of 23.9%, the second highest in the world after Swaziland (<http://www.avert.org/aidsbotswana.htm>). In a first hand AIDS slows development of Botswana by wiping out young adult population in their most productive age.

In Botswana Jutel does not use normal electronic invoicing instead of letter of credits and prepayments, but mentions that poor credibility and an underdeveloped finance sector is often a problem for Jutel in Botswana just like elsewhere in Africa. Lastly, one formal constraint that can create additional headache for foreign entrants is BEE (Black Economic Empowerment) laws that aim at strengthening the black population's economic welfare and share in the economy. However, for Jutel BEE laws have been more influential in South Africa than in Botswana where these laws are not as strict. Ambiguously, Mr. Mattlar said that Botswana is an easy and safe place to be, but mentioned that it can, however, be challenging for foreign companies to enter.

In addition to formal constraints there are some informal constraints in Botswana and elsewhere in Africa. According to Mr. Mattlar: *“One feature of culture one should know...which is almost as bad as somewhere in the East, Japan or Thailand is losing face, if one makes a mistake it's a terrible thing for them, for example if I speak nonsense – it will close doors in a very big area, because with these guys, one need to*

know that their network is significant.” Although Mr. Mattlar on another occasion stated that personal networks are not very significant in Botswana, they clearly have some meaning after all, because once a foreign company is in that network, even if it does not recognize it, it should still behave according to the norms of the network or otherwise it could damage the company. The second informal constraint might be that despite the direct trade to Botswana, local customers often expect that foreign a entrant has a local partner and often this is the first question to be asked of a foreign company. Jutel felt that Africans like to trade with other Africans, not only in Botswana but also elsewhere in SSA. In other words, they feel more comfortable acting with each others. Thereby, using a local partner the things can happen in a way familiar to both parties. To conclude, in Botswana local environment does not impact a company’s entry mode strategy where Jutel is able to sell directly to its customers. However, in South Africa they do need a local partner by law, and Jutel actually benefits from a local partnership because it makes its business more effective. They have a local partner to take care of maintenance and service.

Strategic responses to institutional pressures

As mentioned before, Jutel has been able to trade with Botswanian clients relatively smoothly. Consequently, the local environment does not strongly affect the company’s operations. However, Kai Mattlar mentioned that the company still needs to adapt to local conditions in certain ways. For example, even in Botswana some product localization needs to be done by Jutel in order for it to match local customer demand. Jutel needs to customize its products to suit the needs of each customer. It was also mentioned that customers in Europe prefer simple and plain software whereas customers in Africa could be satisfied with weaker software with nice colors and effects.

Although Jutel as a small company has very small chances to impact the local environment to a larger extent, it has been active in impacting its potential customers and their preferences. Kai Mattlar described how they try to find potential customers in Southern Africa who need to build up the whole radio broadcasting and to discuss with them before they send a very detailed offer request. By doing so, Jutel is able to influence potential customers’ bids and gain points for the company. This is important

because Jutel's marketed systems are so profound and thereby sold through international tender processes. The proactive approach of identifying customers is similar to that of Omnitele. Jutel's one way to affect possible changes in the institutional environment is to try to build up long-term partnerships with big local players such as SABC, which could facilitate Jutel's integration into other Southern African countries. It was also mentioned by Seppo Lohikko of Omnitele that the company would be less vulnerable to changes in the environment and that their future in SSA would look more secure if they were able to partner with some big local player such as MTS, which is Southern Africa's own operator present in many SSA countries.

Legitimacy and overcoming constraints in Botswana

Good "personal chemistry" was seen as an important facilitator in different projects of Jutel. Kai Mattlar described how he has learnt that in Botswana personal trust is very important: *"Before one should even start talking about money, one should use time for talking and getting familiarized with local customer. It's a slow way to do business but one can start talking about money once you drop the Mr. and you both start using your first names."* Due to personal trust with local customers in Botswana, Jutel is able to overcome constraints in poor credibility and move to normal electronic billing. It was discussed earlier how good social contacts can be a way to acquire external legitimacy (Rodriguez et al.) and this seems to be the case also with Jutel.

In Botswana, Jutel has also learnt that a foreign company needs to be able to invest seriously in the market and this has to be noted also by potential local customers and partners. For example, it gives a positive and better image when a foreign visitor stays overnight in Botswana, because the "fly-bye" attitude is considered rude. Knowledge of local culture and expectations are seen important by Jutel. Kai Mattlar described how people in Botswanian culture tend to give small gifts to each other. This practice was then absorbed by Kai Mattlar and he explained how giving small items such as a tea mug, a mouse pad or Finnish chocolate makes an impression on the local people. Consequently, Kai Mattlar emphasized how one should treat locals with great respect and form real friendships to make business run smoothly.

Local presence is also very important and therefore for instance in South Africa Jutel has a local partner, Harambe, which is also required by the law. For Jutel the local partner is needed to ease adapting to the local institutional framework. It also benefits Jutel by enabling increased local presence which is particularly important for the company since one goal for Jutel is to prove they are able to provide services and maintenance from Finland to Botswana and other SSA countries. Kai Mattlar also noted that in some countries a local partner is also better than a foreign one due to BEE regulations. The protocol was also seen as important in integration in SSA and Jutel uses Cyrr Group to ease integration to other Southern African countries. Using Cyrr Group services has been seen as a very cost effective approach by Jutel. This indicates that using outside services or consultancy to overcome entry barriers could be an effective way to integrate to different SSA countries.

Legitimacy can be seen particularly important for Jutel, because for them after-sales and maintenance services are equally important as the first sales when the radio broadcasting system is distributed. Thereby continuing contact between local partners has been one way to maintain trust between partners that was seen as essential. However, in Botswana due to anti-corruption policies, Jutel is not able to organize for instance dinners or other occasions for customers. One clear advantage for Jutel in SSA has been that their competitors have not yet started to integrate into SSA which certainly gives them at least short-term first mover advantage. In this context, the first mover advantage basically allows Jutel to form valuable relationships and position itself in the industry before competitors. In addition, Finland's good reputation in Africa as high-tech a country has eased Jutel's integration into Botswana and other SSA countries. In the long-term perspective company legitimacy is aimed at, good quality of service is equally important alongside good trust with local partners, especially when after sales are important for the company.

5.7 Case 3. SANAKO in South Africa

SANAKO is a Finnish company specialized in cross-curricular technology solutions with headquarters in Turku. SANAKO is perhaps more known by its renowned products such as Tandberg Educational, Auditek and Divace. The company has over

40 years of experience of learning solutions and SANAKO has versatile relations with many different actors in the learning industry through networks and alliances. The company's product range is quite wide; they sell language learning products, such as multimedia labs, classroom management solutions, and mobile learning software. These products are accompanied by services and accessories. It is important to emphasize that SANAKO performs through local distributors and resellers everywhere in the world, except in the UK. Many of SANAKO's products are award-winning and certified. According to the company website, SANAKO sells their solutions both to the education and corporate sector, and is a global leader in language learning solutions. SANAKO is fairly internationalized, it delivers learning technology and services through over 70 resellers, but it has also its own sales subsidiaries in the UK, the USA, France, the UAE and China. The turnover of the company is around 12 million and 95% of the sales consist of exports. The share of SSA in turnover is just 1-3%, indicating that SANAKO's sales to SSA still are marginal.

Market environment of South Africa

South Africa is the most developed country in SSA and all of the persons interviewed in this study unanimously argued that South Africa, being largely industrialized, is the most modern country of all SSA, South Africa ranks among the top in Mo Ibrahim Governance list with fifth position right after Botswana, indicating that the country is one of the most developed in SSA. By African standards, South Africa is among the least corrupt countries keeping fourth position, after Botswana, Mauritius and Cape Verde. However, the global ranking of South Africa is 54th scoring 4.9 points. The equivalent score for Finland is 9.0, almost twice as high as that in South Africa. These results indicate that corruption exists on some levels in South Africa and indeed there have recently been major corruption scandals in the country. For example, leader of South Africa's leading political party of ANC and presidential candidate Jacob Zuma has been charged with corruption, which has created great political tensions inside South Africa.

According to Forbes (2008), the great majority of Africa's biggest companies are located in South Africa and the World Bank ranked South Africa as the easiest place

for doing business, not only in SSA but in the whole continent. The 32nd global position projects an image of South Africa as an easy business destination. Indeed in some terms South Africa is one of the easiest places to get credit; it ranked at second place in the world and having sophisticated laws of protecting investors at ninth place. Consequently, South Africa is in some terms, according to the World Bank's criteria, an easier place than Finland, although the overall ranking of Finland is better than that of South Africa. In addition, the World Bank's index reveals that South Africa does badly in other criteria used to form the WB's business index which may especially concern foreign companies. South Africa is in 147th position when trading across borders is measured and 82nd when measured forcing contracts (<http://www.doingbusiness.org/Documents/CountryProfiles/ZAF.pdf>).

Therefore, it seems that foreign companies willing to import or export to South Africa or using it as a gateway to Southern African countries could face great difficulties since trading across borders even compared to other SSA countries is difficult. Good investment protection law is not necessarily enough for foreign entrants if for instance possible disputes are difficult and costly to solve and create an additional risk for foreign entrants.

The political situation in South Africa seems to be very complex. The ruling party ANC has been affected by internal power conflict creating political uncertainty in South Africa. In South Africa, members of business sectors tend to have close relations with the political class. For example the South African state has embarked on a massive infrastructure building program, and creating lucrative sub-contracts and political connections seem to play an important role in securing tenders. It is estimated that the economic growth of South Africa will slow down from 3.5% (2008) to 2.5% (2009). Slowing economic growth affects mostly the middle-income class reducing their consumption. South Africa has also been unable to control its level of inflation which was estimated to reach 11.9% in 2008, almost three times higher than government's initial target (The Africa Report, 2009).

SANAKO's activities in South Africa

SANAKO has been able to sell their products to Nigeria, Senegal, Kenya and Ghana, but in many cases it has been a question of singular sales and not long-term partnerships or agreements. Some of the projects in which SANAKO participated have been financed by such organizations as the World Bank and UNESCO. At the moment, SANAKO is pursuing to deepen their presence in South Africa which is their most potential market in SSA since there are 12 different official languages providing natural demand for language education technology.

SANAKO had sales in South Africa already during the apartheid government but was forced to withdraw from the country after the introduction of the international trade embargo. It was only in 2004 that SANAKO returned to South Africa since it started to get inquiries from the country and found a prospective local partner. In 2006– 2007 SANAKO made a larger investigation of the local markets, organized seminars and training, and contacted end users. This was also backed by FINPRO and Finnpartnership that supported SANAKO in their re-entry to South African markets. SANAKO's initial aim was to use South Africa as a gateway to other Southern African countries, but it is currently skeptical about the matter. In addition, their sales to South Africa, despite the efforts, have remained modest.

5.7.1 Case findings

Formal and informal constraints

Despite the fact that South Africa is the most modern country, there are still several constraining factors for a company such as SANAKO. From formal constraints, a poor infrastructure was identified as one major challenge, especially because SANAKO's products demand robust and advanced networks and infrastructure. Poor credibility and an underdeveloped financial system was also a challenge for SANAKO that stated for instance that they are not willing to sell their products on credit to South Africa. Bureaucracy and heavy delays in projects have also caused additional troubles for the company.

Poverty and high prevalence of HIV/AIDS was seen as factors slowing down SANAKO's interests to integrate South Africa and other SSA countries. In South

Africa, as in many other African countries, SANAKO's primary customers are private schools and universities which are much less in numbers than public educational establishments. Thereby, their customers segments remain low. In South Africa the number of potential educational establishments was approximately 800, but many of those are governmental institutions meaning that bureaucracy and slow decision-making had constrained penetration to that segment. Nonetheless, for SANAKO private institutions could be a good testing ground and a possibility to gain references before accessing governmental institutions. After all, SANAKO representative Raimo Körkkö mentioned several times how significant references are in their business.

Corruption was identified as a big informal constraint by SANAKO in South Africa and SSA. According to Raimo Körkkö, corruption increases transaction costs, and on occasions when corruption is at a very bad level, it prevents transaction and without specifying a country, that corruption has an effect also to tender processes. Since SANAKO operates through local distributors and importers, the South African institutional environment does not impact entry mode decisions.

Strategic responses to institutional constraints

Raimo Körkkö describes that for being able to trade and to be successful in South Africa, SANAKO needs to adapt to rules of the local environment. Therefore approaching the local institutional environment of SANAKO involves similar compromising as in the case of Omnitele and Jutel. In terms of product adaptation, SANAKO felt that they do not need to customize their products in order to conform to the local environment. However, SANAKO had to change their marketing material to meet local demands. In South Africa and elsewhere in SSA, SANAKO has received feedback that their company image is too occidental for Africa. For instance, Raimo Körkkö described how they are lacking pictures of black people in their company brochures and explained how they are aiming at obtaining local footage to better present and illustrate how their products are used in African schools and universities. In short, local customers and partners feel more comfortable if a foreign company is able to show that not only their products and services are applicable to Africa, but need to create an acceptable image by the local environment. Raimo Körkkö also mentioned that pricing is also a very sensitive issue in SSA for SANAKO and

mentioned how the only way to be competitive in the region is to keep prices low enough to match the local demand.

Legitimacy and overcoming constraints

The underlying potential in South Africa was seen quite large by SANAKO, but the company remained rather skeptical about harvesting that potential, stating that it could take more than five years before the company would be able to cash that potential. Although the company has seen some effort in South Africa, it still has not fully succeeded in taking over local markets and thereby in achieving legitimacy in the markets. Although SANAKO itself considers that South African markets are not mature enough, it can also be estimated that the biggest obstacle for legitimacy in South Africa for SANAKO is the lack of references. This has been acknowledged by the firm and gaining references and credibility currently has top priority in SANAKO's objectives in South Africa.

SANAKO has started to achieve references gradually targeting first private educational establishments before targeting public ones. Good relationships have been seen important in this process. Since SANAKO operates through local distributors, it is vital that they have good relations for instance with the ministry of education. As for the private sector, relationships could be easier to obtain since decision-making and hierarchical structure is less high there. Support to the local distributors was also seen very important. Raimo Körkkö mentioned that they often visit local customers together with the local partner. This indicates that despite the local representatives and partners SANAKO needs to be actively present in the market as well. The problem for SANAKO might be that considering that African countries are quite hierarchical, representatives or a minister of a ministry of education would demand participation of the company CEO or senior sales manager such as Raimo Körkkö to open the trade relations. If executives are not willing to travel to South Africa to meet local "big men", it could give an impression that SANAKO is not willing to do the required effort or is not serious enough.

To facilitate the integration process and overcoming constraints to entry, SANAKO relies on the CYRR group and their contacts. The company sees that using such

expertise is the most cost-effective way to integrate to SSA markets. SANAKO has also utilized the help of Finnish embassies and Finpro for finding and contacting potential customers. Raimo Körkkö stated that: *“Finnish embassies and Finpro has worked as a protocol for us and we’ve been using their customer interface which is a rather inexpensive option. It’s totally different thing if commercial attaché phones to ministry of education than our salesman, there’s more a sense of diplomacy”*. Another way for SANAKO to increase local coverage in South Africa is investing more and more in e-marketing and their websites.

Using outside consultancy or help cannot yet overcome all the constraints faced by SANAKO in South Africa. As for Jutel, poor credibility was seen as the primary challenge in SSA. SANAKO is too afraid of selling on credit and finds letter of credits difficult to use. It also seems that SANAKO perceives greater uncertainty in the SSA region compared to other case companies. Building strong personal relations with local customers could ease in both of these issues. It was discussed earlier how strong personal relations could be essential in achieving external legitimacy, because they increase trust between constituents. Increased trust would perhaps be the best way to tackle financial difficulties since it becomes cheaper than letter of credits or governmental guarantees. This trust can be gained only through regular visits to South Africa. After all, even if the potential could be harvested only after years ahead, SANAKO would probably benefit by taking into account that trust in SSA is traditionally gained gradually over time through increasing transactions (Fafchamps).

5.8 Case 4. Tramigo in Nigeria

Tramigo is an ICT company specializing in tracking devices, established in 2002 and with its headquarters in Espoo, Finland. Despite being a relatively young firm, Tramigo is highly internationalized operating through distributors in over 150 countries. Hence, Tramigo can be considered as a born-global company. The turnover of the company was roughly 2.5 million Euros but is estimated to exceed 12–15 million this year, which means that the company grows extremely fast and aggressively. The share of SSA in Tramigo’s sales is over one third, indicating that SSA is a very important market area for the company. Tramigo’s primary product is

T22 which is a portable tracking device using GSM technology. T22 can be used for several purposes, for instance to track down assets, vehicles and people. In addition, Tramigo itself has created and patented its landmark standard and software which increases the company's competitiveness.

Market environment of Nigeria

Compared to Botswana and South Africa, Nigeria's rankings are much lower when using the same three criteria as with the other example countries. Nigeria is in 39th position in Mo Ibrahim Governance Index, which indicates that despite its massive oil and gas reserves, Nigeria has not been able to coordinate incomes yielding from exporting oil and gas into long-term development of the country. Interestingly, Nigeria's ranking is worse than in former conflict countries such as Sierra Leone and Liberia. Nigeria is just one place higher than Guinea Conakry, which is one of the most corrupted countries in the whole world.

In terms of corruption Nigeria is not doing well either. From 10 to 1 Nigeria scored only 2.7, which left it in 121st and 22nd places in global and regional rankings. Blatant corruption has been a common feature especially in resource-rich countries of SSA such as in Nigeria where corruption scandals have been part of everyday life since its independence in 1960. According to the Final Report of Corruption survey study (2003) made in Ahmadu Bello University, it was found that the institutions perceived to be most corrupted are: the Nigerian Police, Political Parties, National and State Assemblies, Local and Municipal Governments, Federal and State Executive Councils and the Traffic Police.

The World Bank ranked Nigeria at the 12th place in the SSA region and in 118th position in easiness of doing business. In terms of employing workers and protecting investors, Nigeria is a relatively easy destination with global rankings of 27 and 53. However, Nigeria remains to be particularly challenging in terms of dealing with construction permits, registering property, paying taxes and trading across borders. Basically most of these factors excluding trading across borders would influence only domestic firms or those foreign companies being present in Nigeria as a form of a

legal entity. Nevertheless, low placement in sub-indicators of doing business indicator provides general indication of Nigeria as a complex business environment compared to Western business environments.

Although current president of Nigeria Umaru Musa Yar'dua is showing more interest in Nigeria's various problems such as tremendous corruption, he has not been able to provide any visible results. One of the key national issues is the crisis in Niger Delta, which is the region where most oil drilling takes place in Nigeria. Several armed gangs, some criminals and some with a political agenda are sabotaging the oil production and kidnapping employees of oil companies, affecting the willingness of foreign investors to keep working in the oil-producing region (Africa Report, 2009).

Tramigo's activities in Nigeria

At the moment, Tramigo has sales operations in over 25 different SSA countries and they are constantly integrating into new countries. For Tramigo, Nigeria is globally the third-largest target country in terms of sales and the largest country in terms of profit margin; thereby Nigeria is the most important market for Tramigo also in SSA. Tramigo has been active in Nigeria since 2005 and is currently the leading brand in Nigeria. Like everywhere else in Africa, Tramigo operates through resellers in Nigeria and it has several distributors and importers in Nigeria. The main reason for this is that Nigeria is a federation divided into separate states. Secondly, Nigeria is the most populous country (148 million/2007, CIA factbook) of whole Africa. Therefore, using one distributor would not be wise. In Nigeria, Tramigo has been able to identify large target segments and their current goal in Nigeria is to increase sales by fostering their brand and image.

5.8.1 Case Findings

Formal and informal constraints

Tramigo has been avoiding some of the formal constraints such as the complex customs system of Nigeria, because in their strategy they indirectly export their products using local importers and distributors. Legislation was seen very complex

and variegated due to the high number of different states in Nigeria, but otherwise most legal constraints were told to exist instead in North Africa where for instance in Egypt exportation of GPS technology is totally forbidden. In addition, legislation in Nigeria does not affect Tramigo much, because they use local partners. Poor infrastructure and poor logistics related to it were mentioned to be one of the biggest challenges in Nigeria, especially since Tramigo is in the distribution industry. A fragile state environment was seen as a potential threat, for instance because wholesalers are not willing to keep big stocks because of uncertainty. But unequal social structures and high income gaps was also seen as possibility for Tramigo, because the company is selling security products. Getting to Nigeria is also more demanding for the business traveler since the cost of living is high, visas are expensive and, for example, it was mentioned that in Lagos hotels are the most expensive in the world, far more expensive than in Monaco, New York or Paris. Both consumer and industrial products are very expensive in Nigeria because of the lack of capital. This is a constraint also for Tramigo, because wholesalers are not able to keep big stocks. It was also mentioned that Nigerian companies are reluctant to keep big stocks also because of the uncertainty and instability of Nigerian markets.

Nigeria is also often mentioned as dangerous for foreigners, but Tramigo has not come across any dangers in the country. Arto Tiitinen argued that there would be a higher possibility of ad-hoc violence in South Africa. Nigeria is notorious for its corruption and this was noted also by Tramigo. However, because local distributors take care of customs clearances and the size of each sale is relatively small, corruption has not caused additional problems for Tramigo. However, facilitation fees are said to be common in Nigeria and elsewhere in Africa, but according to Tramigo it depends on the industry. For example, it is mentioned that network business in Africa is plagued by corruption. Nevertheless, corruption lifts the prices of Tramigo's products for end users and thereby it shrinks the company's target segments by indirectly affecting the demand. The institutional environment in Nigeria has not influenced Tramigo's entry mode choice which is the same everywhere. However, in Nigeria that is a federation, Tramigo has been forced to use multiple distributors since each state or group of states demand local distributors.

Strategic responses to institutional pressures

In Nigeria, Tramigo has not had to do any kind of modification to better match the local environment. On the contrary, Arto Tiitinen emphasized that their product is “peace of mind product” perfectly suitable to Nigeria’s markets. And therefore in Nigeria, which is an extremely unstable and unpredictable country, upper and middle classes have bigger needs of products such as Tramigo’s than people do in more stable Western countries for instance. Arto Tiitinen admitted that Nigeria is the most challenging for them in whole SSA, especially in terms of logistics and security, which are, however, less of a problem because they are acknowledged in the company. Many of the challenges exerting from local environment are avoided by Tramigo because they export indirectly. A Tramigo representative remarked that Nigerians expect and value face-to-face meetings and thereby Arto Tiitinen travels frequently to Nigeria. In Latin America Tramigo does a lot of marketing on television, but in Nigeria television and printing advertisement is very expensive; hence Tramigo invests more in internet marketing there, which has proved to be successful in SSA.

Legitimacy and overcoming constraints in Nigeria

Tramigo is able to overcome many of the biggest market entry constraints such as corruption, complexity of local distribution channels, bureaucracy and customs difficulties by using local distributors and not exporting directly. The company exports its products similarly almost everywhere in Nigeria. But due to Nigeria’s huge size and difficulty of managing that size, Tramigo is using multiple distributors whereas it in Togo and Benin has one exclusive distributor. Using multiple distributors and not being too loyal to any of them is also a part of the risk diversification of Tramigo in Nigeria. Tramigo also demands prepayments in order to overcome constraints related to poor credibility and complexity of the local banking system.

Arto Tiitinen emphasized that Nigerians are a very entrepreneurial type of people. This has helped Tramigo a great deal because local salesmen and distributors have been very proactive and enthusiastic towards Tramigo’s products. However, backing local distributors is seen as important from the perspective of long-term competitiveness. Thereby active local presence is required in Nigeria where face-to-

face meetings are very much valued. Tramigo tries to seek legitimacy by increasing local conspicuousness and fostering its local image through brand building in Nigeria. Although Tramigo is a leading brand in Nigeria, it does not mean much because Tramigo's technology is still relatively new and its brand building is only in the beginnings. Tramigo is creating awareness of its products by investing in e-marketing and Google ad words, but is also looking for visible users. As an example, Tramigo gained temporarily high demand from the Nigerian delta, where kidnapped Shell workers were found and released because of Tramigo's products.

Unlike other case companies, Tramigo has not relied on outside consultancy in SSA. Tramigo was once a part of Finpro's export ring in Asia but regarded that as useless and thereby refused any outside consulting. Part of the success of Tramigo in Nigeria and in other SSA countries has been more related to company characteristics: determination and creation of local geographical data, and focusing on SSA markets; especially Nigeria has been one success factor. Secondly, most of the Tramigo staff is emerging market specialists. Therefore outside help has not been considered necessary. In addition, Arto Tiitinen states that there exist no skilled consultants who could provide them with help since their work in SSA countries is pioneer work. Thereby competent staff plays a key role in directly influencing internal legitimacy. At the moment, Tramigo is forced to keep away from some SSA countries because of a lack of a competent and confident sales force.

Perhaps the greatest turmoil to local acceptance and legitimacy in Nigerian markets has been product characteristics. Arto Tiitinen profoundly described how their product is ideal for Nigerian markets where there is more need for security providing products than for instance in Finland. Because there is a natural need in Nigeria for products such as Tramigo's, gaining long-term legitimacy becomes easier. Since Tramigo's product is urgently needed by many of the upper and middle class segments, it has increased word of mouth marketing which has greatly benefited Tramigo by increasing popularity of their products. Arto Tiitinen even mentioned that some of their customers in Nigeria are their best salesmen. This can, however, be a problem since it is widely known that it can be difficult to manage and influence word of mouth marketing by company. Ensuring good quality and constantly updating the local geographic information system helps to maintain the customer satisfaction.

5.9 Additional informant companies

In order to increase the validity of this study, two additional interviews with two companies were made. The first additional informant company is Cyrr Group and the second informant company is Nokia. Instead of concentrating on just one example country, both of these additional informant companies provide answers regarding the whole SSA region since both of these companies have experience of multiple SSA countries.

5.9.1 Cyrr Group

Cyrr Group is the only Finnish consulting group concentrating solely on Africa. The company was established in 2001 and it has offices in Helsinki, Johannesburg and Paris and is planning to open new offices in West and East Africa. The company has an exceptionally wide contact network in Africa and helps companies to find business partners in Africa and develop long-term business relationships. Cyrr Group specializes in many different fields, but its primary field is IT and telecommunications. Of the companies in the case study, Cyrr Group is the one that has been promoting the penetration into SSA the most.. Therefore, information yielding from Cyrr Group can be regarded as equally valuable as the information yielding from the other case companies.

Formal and informal constraints in SSA

Cyrr Group executives Kristian Ylinen and Vesa Jaakkola emphasize that SSA is in every way a very challenging target region and full penetration to these markets or to one specific country can take years. There are several factors that restrict integration of Finnish companies to SSA. There are many formal constraints, out of which poor credibility and lack of proper financial institutions are the most common ones. For example, when letter of credits are used, it might be difficult to find a local bank approved by a Finnish bank and vice versa. Geographical distances are very long and the infrastructure is still underdeveloped. However, Cyrr group executives emphasize

that the infrastructure in the ICT sector will be significantly improved in the future, once a new subaqueous cable circulating the whole continent of Africa will be built. Competition might be harsh in many countries and in many industries. Competition is distorted in many industries due to the fact that for example Chinese trade policy skews competition in many sectors because China has made long-term governmental agreements which cover many sectors. Especially the telecommunications, the mining and certain infrastructure sectors are very much controlled by the Chinese. In addition, other notable legal constraints are EU export restrictions of some specific technology to certain SSA countries.

Cyrr Group mentions that it has been difficult for Finnish companies to comply with the African time concept and with the fact that Africans do not like to rush with things. Therefore there are often delays in projects. One major informal constraint for Finnish companies mentioned by Cyrr is corruption. Corruption changes the competition field, which can be noted for instance in tender processes where deals are won in a vague manner by some corrupt participant. Thus, Finnish companies unwilling to participate in corruption will lose deals because there are always some who are willing to bribe. This, however, is said to be industry-specific.

The most emphasized constraint for companies, according to Vesa Jaakkola, are business networks: *“The significance of local networks is based on the fact that you know people and you are known. You can’t undermine this fact at all and here in Finland people see importance of these networks very naively, but they are (networks) very valuable in Africa, after all everyone wants to buy from friends” This statement indicates that without knowing anyone well enough in SSA it is very difficult to integrate into these markets.”*

Strategic responses in SSA

Cyrr Group executives Kristian Ylinen and Vesa Jaakkola emphasized that the business environment in SSA demands a local presence and that it can be difficult to manage business operations outside SSA. At the moment, in 2009, Cyrr is opening two new offices in East and West Africa. This is a clear signal of how the institutional environment exerts pressures upon foreign entrants by demanding active presence in

the markets. Cyrr Group mentioned that one factor slowing down market penetration which can be a problem particularly for bigger companies is that there is often one manager who leads a big geographical marker area, often a MEA (Middle East and Africa) area who therefore perhaps does not have enough time and resources to use for SSA, despite the fact that SSA would require a great notion.

Both Cyrr executives stated that it is important to adapt to a local environment although there are ways to affect local environment in SSA and make integration smoother into those markets. One needs enough time and determination for SSA markets. However, even smaller companies can use lobbying to change the very nature of a local environment. Kristian Ylinen revealed that: *"Lobbying in SSA is all about personal relations, even smaller companies can have success in this if they are able to build relationship with local tycoons or politicians, for instance if President happens to like CEO of some smaller company it will definitely take things forward."* In addition, Vesa Jaakkola noted that for Finnish companies, a global pricing strategy is seldom suitable in SSA markets, which suffer from lower purchase power. Consequently, too high prices can block entry to markets. In addition, Indian and Chinese firms are very competitive, particularly in the ICT business, because they often have lower prices than Western firms do. This does not mean that for Africans the price is the primary determinant for Africans, but it means that if a foreign entrant is able to set an adequate price for its products or services it is more likely to make the entry to markets smoother.

Legitimacy and overcoming constraints in SSA

The choice of country is probably the first thing that a foreign company should consider when it is planning entry in the SSA region. The country choice has a great influence on future success in the region, but it also has an effect on how the foreign company is able to overcome different market constraints and further achieve legitimacy. According to Cyrr Group executives, one should always pay attention to the choice of country noting that South Africa or Kenya are not necessarily always the best places to start integration, because of tight competition or maturity of markets.

To overcome the overall complexity of SSA markets, a lot of time and resources need to be committed by the foreign company. Kristian Ylinen noted that bigger companies can always be more efficient in this since they have more resources and a longer time perspective. However, smaller companies can be equally successful due to their greater flexibility. Foreign companies may also overcome different challenges if they are willing to adapt to local reality. Vesa Jaakkola for instance, described that there is no other way than adapt to African time orientation, because rushing things forwards will not improve the end result in any way. Developing business relations clearly demands time. Kristian Ylinen states that: *“One needs to learn how to listen. Many Finns just travel to Africa and starts to instantly hold PowerPoint presentations of their own products. Africans value when you give them time – you shouldn’t be arrogant, if you meet your client for the first time then one should talk about general issues instead of giving product presentation”*.

Local presence was seen as important for both Cyrr Group in their own business and for their customer companies. Active local presence does not only ease the managing local operations, but it also fosters personal relations which were seen as a key factor in competitiveness in SSA by Cyrr Group. Nevertheless, according to Cyrr Group, a local partner is often required, if not by law then by practice. To ease integration to SSA for instance, personal relationships become useful in a corrupt environment because they provide personal trust which provides more long term value than if company would bribe its way through. Therefore, it is important that local partners have access to local networks and create good relationships.

Cyrr Group executives emphasized that Finland has a relatively good reputation in Africa which could benefit Finnish companies’ desires to integrate into SSA. Although the protocol is seen important by Cyrr Group, Vesa Jaakkola noted that there are differences between countries in SSA. The poorer the country the greater significance does the official protocol have. For instance, in DRC or Mozambique differ significantly from South Africa. In addition, Cyrr Group suggested that one way to positively profile Finnish companies in SSA is social responsibility which might increase credibility of Finnish companies in the region. Good references are always important considering long-term survival in the markets. In addition, Cyrr Group executives pointed out that a company’s staff plays a significant role in its success in

SSA. Kristian Ylinen stated that: *“It’s important that there’s genuine interest towards Africans and African culture, otherwise Africans are able to sense it. Especially Africans dislike fly-by mentality and rush – culture awareness is important and that one understands different facts and how they influence to various things in Africa”*. This statement indicates that cultural awareness helps greatly in relationship building, too.

5.9.2 Nokia

Nokia Corporation is a Finnish multinational communications company, headquartered in Espoo, Finland. Nokia is the world’s largest manufacturer of mobile telephones. Nokia’s operation has been divided into two primary lines of business; Devices and Services & Software. Nokia has 112,262 employees in 120 countries and has sales in more than 150 countries. In 2007, Nokia’s global annual revenue was 51.1 billion Euros and the operating profit was 8,0 billion Euros. The company is listed in the Helsinki, New York and Frankfurt stock exchanges.

The reason for choosing Nokia as an additional informant company is that it is of all Finnish companies by far the deepest integrated into Sub-Saharan Africa. Nokia’s devices are available almost in all of the different countries on the African continent and the company sees Africa as an extremely important growth market. At the moment, the company has regional head offices in Lagos, Nairobi and Johannesburg. In addition, Nokia has several other offices in different SSA countries. As a large multinational company, the institutional environment that the company faces in SSA could be far more complex. On the other hand, a big MNC also has more ways to respond to different institutional pressures than a small or medium-sized company does.

Formal and informal constraints

As a large multinational corporation, Nokia faces perhaps more complex challenges in SSA than the case companies of this study do, because none of the case companies had made any investments in SSA, for instance opened an office. Nevertheless, many

of the major constraints faced by Nokia are no different from constraints faced by smaller companies. For Nokia, the business environment is far less developed than anywhere else; SSA is still a small piece of their global strategy. The main formal constraints in SSA mentioned by Thierry Delarue are: the extreme poverty level, which obviously has an effect on the demand structure, poor infrastructure and an underdeveloped financial system.

Although legal constraints vary from country to country in SSA, many countries maintain high levels of taxes and duties. In addition, tariffs are also at a high level in many countries. For Nokia, managing distribution channels is an overall challenge; it has especially been difficult to find local partners. One major problem for Nokia in SSA is parallel importing or grey importing. There are many small and big companies that export Nokia's devices outside the formal distribution channel. This is a tremendous problem for Nokia, because the company cannot manage its marketing, pricing or control its distribution. Customers cannot have warranties for their devices which ultimately might impact the customer experience of Nokia's devices negatively. Furthermore, corruption creates additional challenges for Nokia, since the company aims at being as transparent as possible.

Strategic responses to institutional constraints

Nokia is clearly different from the case companies because it is actively trying to influence local market environments in different countries of SSA. However, one needs to understand that Nokia has more possibilities to influence the environment, because Nokia is one of the biggest corporations in the world with more resources than smaller companies. Some features of Nokia's responses to institutional pressures are very active and in Oliver's categorization would be close to manipulation. For example, at the moment Nokia tries to seek abolishment of VAT on mobile phones in Africa and argues that it will contribute to economic growth of these countries (<http://phonereport.info/tag/nokia-tax-africa>). Thierry Delarue emphasized a few times during the interview that Ghana has contributed a lot economically after abolishing VAT from mobile phones. This is a clear sign of how Nokia tries to impact local environments in SSA and create a better sales environment for its products. Not surprisingly, Nokia's arguments are based on the company's own field studies made

in Kenya and Nigeria. Consequently, it remains the local governments' job to consider how valid and reliable they consider Nokia's research findings. Interestingly, Nokia has not tried to lobby local governments of SSA and operators to decrease prices of call making (two to three times more expensive than in Finland) which definitely would positively impact Nokia's sales in SSA. In addition, Thierry Delarue mentioned that Nokia's SSA branch has been considering hiring a government specialist working and nurturing governmental relations, indicating that Nokia is seriously trying to find new ways to influence local institutional environments.

Thierry Delarue described that in order to become more competitive in SSA region concentration is needed. The company has applied a special domestication and localization strategy. In this, SSA is divided into different sub-regions. By doing so, Nokia aims at fostering its local presence which was mentioned earlier to be important in order to be competitive in local markets in SSA. Thierry Delarue elaborated that Nokia aims at better understanding local environments and tries to better adapt to local conditions. Thierry Delarue mentioned that Nokia has been working very hard on building and designing phones which Nokia calls entry-level phones which are specially designed for the poorest segments in SSA countries. These phones are designed for people who have never had a phone before. Although Thierry Delarue mentioned that Nokia has not been as successful in understanding local needs and preferences as they would have hoped – it still shows that in order to comply with pressures stemming for local market environments Nokia is forced to have a wide product range and low-priced entry level phones. It seems that Nokia is about to launch new products that are targeting lower segments even better.

In terms of pricing, Thierry Delarue felt that Nokia did not feel pressures to lower its prices despite Chinese and Korean competitors' plans to target SSA markets with ultra-low-cost phones. He added that price is not the only determining demand factor for their products and that due to economic scales, Nokia is able to produce phones "cheaper than anyone on the planet". Consequently, as a company and its involvement in SSA grow, it has more determination and chances to influence local institutional constituents and shape the environment to better suit its desires.

Legitimacy and overcoming constraints in SSA

Local presence is one major goal for Nokia in SSA, because it helps Nokia to better respond to challenges resulting from local market environments. In SSA, Nokia has a specific strategy to increase local presence which Nokia calls domestication and localization strategy. The domestication and localization strategy aims to have actual people on the ground, for instance currently Nokia has six local sales units which is a part of Nokia's domestication strategy which aims at building long term presence and partnership on the ground.

Currently Nokia has six sales offices, each responsible of marketing, logistics, management etc. so that different functions are under the same entity. This allows Nokia to better tackle challenges in different regions in SSA. The local presence has clearly been one part of Nokia's success in SSA. This was identified by the company in the very early beginning and made Nokia invest money and resources in the SSA target region. In Nokia's case, an active local presence has definitely affected the company's legitimacy in the area. The importance of local acceptance and its role in local competitiveness was also identified by the Nokia executives. To increase local conspicuousness, Nokia has been very active with various social programs. Thierry Delarue emphasized how social programs are an important part of the domestication strategy, which aims at being long term corporate citizen and to be part of that community, because penetration into African communities requires Nokia to contribute to that society. Thierry Delarue highlighted that Nokia actively supports different social programs. However, they are not good at promoting it or advertizing it. Nokia firmly believes that they are changing peoples' lives by enabling them to communicate and that the increase in mobile phones has a direct link to the GDP. This enthusiasm and the fact that their product is useful in local societies increases local acceptance for their products and eases access to those markets.

However, active local presence is not enough for overcoming some of the constraints springing from local institutional environments. Even in big countries with very large customer segments such as Nigeria, Nokia uses local distributors and importers to overcome constraints such as poor infrastructure, bad logistics, underdeveloped marketing infrastructure etc. To decrease other risks resulting from the environment, Nokia demands prepayments and trades only with Euros or US dollars.

6 Discussions and Analysis

In this chapter, results of the empirical part are analyzed against the theory presented earlier. Firstly, formal and informal constraints are analyzed from a theoretic and empiric viewpoint. Secondly, strategic responses to institutional pressures of Finnish ICT companies are discussed. Ultimately, the legitimacy of Finnish ICT companies in SSA is discussed and analyzed. In all three parts, possible common ground between the cases is scrutinized and analyzed to see whether some generalizations between cases and between these different countries could be extended to the whole SSA region.

6.1 Formal and informal constraints

All of the case companies tend to face similar kinds of constraints regardless of whether their primary target country is Angola, Botswana, Nigeria or partly South Africa. Poor infrastructure was seen as a significant constraint for all companies. This is an especially strong constraining factor since ICT technology and ICT companies often demand profound infrastructure to perform and deliver the service they are used to. The high level of bureaucracy was seen as a tremendous problem since it slows down Finnish ICT companies' integration in the region. Unfortunately, there was little to do to overcome bureaucracy. The third common factor mentioned by all case companies was the underdevelopment of financial institutions. Poor credibility is seen severe constraint and this is why all of the case companies excluding Jutel and Nokia demand prepayments. But as Raimo Kõrkkö mentions, the problem is not always that customers do not have money to pay, but that transferring that money from SSA to Finland is a challenge, too.

Out of the informal constraints, corruption was acknowledged to be a common challenge in SSA, although all of the companies emphasized that they do not suffer directly from the corrupt market environments. Companies could not directly name other problems or challenges that could be categorized as informal constraints. This might indicate that they are perhaps not aware of all the characteristics involved in local markets. For instance, all of the case companies responded that there is plenty of cultural variety in SSA. However, they could not define how they differ from each

other or what kind of effect it might have on their operations. The case companies did not experience that networks of personal relationships had any influence on their performance in the target region. Only Jutel's Kai Matllar mentioned that in a case a customer receives bad service in a country, it could result in a loss of business contracts in wider area. Cyrr Group executives were the only ones to emphasize that the lack of personal relations would significantly slow down integration into SSA and to emphasize how important personal relations actually are in SSA.

The findings of this study clearly support the theory of literature of institutions and their effect on market entry strategies. Clemens and Douglas (2004) stated that the stronger institutional pressures the stronger need there would be for less active entry modes. Davis et al. (2000) stated how companies that are more affected by local institutional frameworks tend to use exporting as their entry mode. Meyer (2001) added that the role of institutions to market entry is higher in unstable and inconsistent market environments that foreign firms need to adjust to. According to Meyer, the more the business environment starts to resemble a western type of business environment, the more companies would prefer more full-ownership modes.

All of the case companies and even Nokia prefer less active modes of entry in SSA. Firstly, all of the case companies excluding Omnitele use local partners and distributors to ease their entry to the target markets. Although for instance Jutel sells directly to its customers in Botswana it has a local partner in South Africa who is used as an integrator also in Botswana. Secondly, all of the case companies, excluding Tramigo, use outside help to ease integration to SSA markets. Omnitele and Jutel were able to penetrate first to Angola and Botswana without outside help due to very good references. Both companies stated though that elsewhere in SSA the most effective way to integrate into the region is with a local partner or with help from an outside consultancy. Therefore, claims of Clemens and Douglas that strong institutional constraints force a foreign entrant to use exporting as an entry mode are clearly evident in this study. One cannot state based on the case studies that they have chosen the exporting mode because of contextual factors, because it has rather been a company-specific factor. However, Nokia's experience in SSA clearly backs allegations of Davis et al. because Nokia only exports its products to SSA and, despite

being one of the biggest companies in the world, the complexity of SSA markets has prevented Nokia to use any kind of other entry modes.

As Meyer (2001) considers, a role of the market entry is significantly affected by complex institutional environments. However, it was discussed in this study that Botswana and South Africa are relatively westernized places for doing business in. Nevertheless, in South Africa full-ownerships entry modes are not possible because of legal constraints that effect foreign ownership. In Botswana, local partners could become very handy since it was discussed how Jutel experienced that a local partner is needed even though not required by law. One can state that informal constraints can be strong and require local presence and a partner even though one can see them as partly Western countries.

The findings of this study indicate that formal and informal constraints influence companies and their market entry strategies in two ways. Some institutional constraints resulting from local environments do not have direct influence on a firm's market entry mode choices. Formal constraints such as a fragile state environment, bureaucracy, high costs, HIV/AIDS, and informal constraints such as culture and a different time concept create conditions to which a foreign company needs to adjust if it wants to operate and do business in that environment. These constraints mentioned above basically determine whether the company is mature enough to enter these markets at all. For example, all the companies described how they have considered not entering some specific countries in SSA due to a very fragile and unstable environment. Bureaucracy, high costs, unfamiliar culture etc. create a certain framework that forces companies to adjust if they want to continue to stay in those markets. Omnitele consultants, for instance, described how different time concepts and the culture need to be accepted, because a foreign company is not able to influence them in any way. It is important to note that one company's constraint can be another one's chance. For example, dualistic markets were clearly a great barrier to entry in SSA since the private school sector was very small compared to the poor public school system which did not have any chance to acquire SANAKO's products. But for Tramigo, dualistic markets are only beneficial since their demand in SSA is higher than in Europe due to the fact that the gap between rich and poor is so high and the rich classes need products such as those of Tramigo.

There are other types of formal and informal constraints found in this study which directly impact entry strategies and choices of entry mode. As noted before, a different and complex market structure and marketing structure can be seen as factors that directly influence foreign entrants by forcing them to export indirectly via local distributors. Market uncertainty and the high level of corruption also constrain entry mode choices of companies influencing them to find a local partner. For example, since all of the companies interviewed were opposing corruption, a local partner or distributor is the perfect way to stay out of it. Although for instance Tramigo and SANAKO use local distributors everywhere, even outside SSA, they would not be able to operate in any other ways, since exporting and distributing directly to end-users or customers would be too difficult for them to handle. In addition, many SSA countries have legal constraints, which forces companies to have a local partner, which also decreases uncertainty experienced by the foreign entrant.

The lack of personal relations and the existence of local networks is the strongest informal constraint affecting the entry strategies of the case companies. According to Kristian Ylinen, doing business in SSA resembles trade between Finland and the Soviet Union, where relationships played a crucial role. In SSA, Jutel, Omnitele and SANAKO were all using outside consultancy which helped them in finding customers and partners. By relying on outside consultants with profound access to local networks, foreign entrants can ease their entry into the region. Networks have a direct impact on the choice of entry mode by forcing companies to find a local partner who also has good relations to end the users or customers in that specific country. For example, SANAKO needed a partner with good relations to the ministry of education in South Africa and elsewhere in SSA. Jutel chose a similar partner in South Africa. This partner has good relations with SABC and further with other big radio stations in Southern Africa. Consequently, the primary answer to the research problem would be that formal and informal constraints affect entry strategies of Finnish companies and force them to seek local partnerships and to look for outside help to reinforce their integration into the SSA region.

6.2 Strategic responses to institutional pressures

The ways in which firms balance between host environment pressures and company preferences yields various strategic responses varying from full adaptation of operations to host environment pressures to full compliance to organizational practices manifesting in standardization of business operations in all target markets (Karhunen, 2006). As discussed in the section Theory of literature, the five response strategies defined by Oliver (1991) are; acquiescence, compromise, avoid, defy and manipulate. The responses of the case companies fall mainly into the compromise or the avoid strategy. However, Nokia is an example of a company showing that a manipulation strategy is possible also in SSA, particularly for multinational companies. A pure acquiescence strategy could not be applied by Finnish ICT companies, since the ICT sector is a fast-developing industry in SSA which means that the nature of the industry is not stable like in some traditional industries. The acquiescence strategy is not possible, also because informal norms and myths are vague for Finnish ICT companies. In other words, because firms were not fully aware, fact that became obvious during the interviews, of all the different factors or constituents of local institutional environments in SSA, Finnish ICT firms are not able to fully acquiesce. Perhaps partly for the same reason, the possibilities to defy are limited, too. At first, Finnish ICT companies' relations to corruption resemble defying since the majority of the interviewees strongly expressed that they oppose corruption. However, this tactic is actually a sign of clear avoidance. Using avoidance tactics is also attached to the issue of choosing local distributors and partners. By choosing a local partner and distributor, a firm is able to avoid some of the pressures arising from the local institutional environment. Corruption is a good example; by relying on a local partner, a company is able to avoid corruption, as Tramigo's case shows. Having a local partner or distributor allows a foreign entrant to better comply with organizational practices.

A local partner allows foreign companies to follow their own practices more, but to some extent the local environment does, however, force companies to adjust their practices to match the pressures of the local institutional framework. Omnitele for instance needs to invest more time in completing their projects since it takes longer to finish them in Angola than in more advanced markets. SANAKO is also trying to change its image to be less occidental by localizing their marketing to suit South African markets. Although some of the tactics of Nokia fall into category of

manipulation, some of its actions relating to local environment resemble defying. For example operating under corrupt environments is a challenge for Nokia, but Thierry Delarue explained that they oppose corruption anyway. They are still able to perform in corrupt countries such as in Nigeria and Kenya. As a result, it takes longer for instance to open a new office. Defying pressures to pay bribes to facilitate entry thereby will not necessarily slam any doors, but only slow down the process. This was noted by the majority of the interviewees who all agreed that it is possible to operate in the ICT industry in SSA without getting involved in corruption.

It sounds reasonable that lobbying active influencing to local environment is all about personal relations, as stated by Cyrr Group consultants. This indicates that even smaller firms, not only big transnational companies, have the possibility to influence the local institutional environment of SSA. Influencing can be even easier than in environments where personal networks do not play a significant role in a society. Cyrr Group consultants also stated that using personal contacts often becomes a much more effective way of influencing the local institutional framework than bribing, since personal relations can become more valuable over time. Based on empirical data, one cannot make assumptions or conclusions about the superiority of one response strategy over others or about how different response strategies affect the outcome of the market entry. Nonetheless, it seems that a proactive approach to the local environment in SSA, which all of the companies interviewed have applied in their behavior, gives companies the possibility to improve their positions in the markets in accordance with a local institutional framework. In addition, it is evident that increased knowledge of local target markets and the ability to profoundly understand different market characteristics in SSA gives foreign entrants more chances to choose their response approach. For example Nokia that understands SSA markets quite well is able to find ways to actively influence local environment. In this case, they published a research stating that their products support economic development which on the top priority list of all governments in SSA. In addition, it is important to note that foreign companies are able to use different kinds of response strategies to different kind of strategies to different institutional pressures. To conclude, in order to be successful in the SSA markets, a foreign company is able to sense under which pressures it is suitable to adapt to local conditions and when it is more suitable to comply with the company's own organizational practices.

6.3 Legitimacy of companies in Sub-Saharan Africa

The relation between legitimacy and entry strategies was analyzed in the section The theory of literature. It was noted that lack of legitimacy may act as a barrier to entry (Rodriguez et al.) Yiu and Makino state that legitimacy is affected by both external and internal factors when market entry is planned. In the theory of legitimacy it has been acknowledged that legitimacy is a complex phenomenon which relates to the assumption that legitimacy is composed of three different types of domains; regulative, normative and cultural (Scott). However, this study does not go very deeply into legitimacy which has been analyzed and dealt with in this study mainly as a unitary concept which helps to comprehend it.

There is no doubt that the experiences of the case companies support the views of the theory, notably that of Rodriguez et al. who state that the lack of legitimacy may act as a barrier to entry. This is true especially for company cases of this study which need the local approval since they do not have additional resources to penetrate to markets in SSA. The first and most influential factor affecting legitimacy is the company's competitive products and services, which as also have been seen as the number one success factor by all case companies. The importance of service and product characteristics becomes increasingly remarkable in the ICT industry which is all about product competency. Many of the interviewees acknowledged that this is also the case in SSA, where for instance poverty does not mean that customers would be prepared to buy inferior technology. One also needs to understand that products and technology are developing very fast in the ICT industry. Thus it might not be clever to position only into one product. One should keep in mind that product development is very important. After all, legitimacy is constantly reproduced (Kostova and Zaheer, 1999), which means that a product or a service needs to be matched with customer expectations over time. When a product loses its value in the eyes of a customer, the loss can weaken the foreign company's legitimacy. A competent product helps foreign entrants also to gain references which was seen to smooth long term penetration to markets and thereby positively affect legitimacy in the target market.

There is also a direct link between legitimacy and choosing a local partner or distributor. As found earlier in this study, a local partner or distributor is often required to overcome formal and informal constraints and to operate effectively in the target countries of SSA, which clearly indicates that local acceptability increases when a foreign entrant has a local partner. Kai Mattlar emphasized this factor by stating that the first question directed at Jutel is often that of who their local partner is. Because of the fact that a local partner is often required, it is important that partner companies are accepted inside their countries. This becomes especially crucial in joint ventures, because in joint ventures the stake of the local partner becomes increasingly important.

The findings of the study also indicate that there are many, both internal and external ways, to achieve legitimacy. In addition to product factors, resource commitment and focusing on markets, there are other internal factors affecting legitimacy. Since penetration to SSA often is a very slow process, it was learnt that it often takes a few years until a foreign company is starting to achieve sustainable sales figures. Therefore there needs to be willingness and determination inside the company to make the effort for the markets and understand that instant harvesting after planting is not possible. Along determination it might demand additional resources since costs of doing business in SSA are often higher than in Europe. Nevertheless, using outside consultancy in market entries can be a very cost-effective way. A genuine interest towards Africans and African cultures is clearly an internal factor which can be seen to positively influence a firm's legitimacy in the region. Kai Mattlar, who perhaps was able to sense the features of local cultures in the firm's primary markets better than any other interviewee, stated that he discovered that Africans like to do business with Africans, indicating that Africans feel more comfortable to cooperate with someone with similar behavioral patterns in business. Therefore one needs to learn and to be aware of local patterns of how to do business. This does not necessarily mean that these patterns need to be applied by the foreign company, but at least recognizing and understanding local logic will not harm the foreign company's legitimacy.

Furthermore, understanding African markets and different factors influencing it will certainly give better chances to increase the companies' legitimacy in the area. After

all, Kostova and Zaheer state that regulative, normative and cultural cognitive pillars of legitimacy differ in their degree of formalization and tacitness. The regulatory domain remained the easiest to observe compared to the cultural-cognitive domain. Thereby, when a foreign company's knowledge of SSA market region increases, it becomes more aware of the issues relating to normative and cultural cognitive domains and can deepen its legitimacy in the area. For example, Kai Mattlar described how he has learnt little by little small features of culture in Botswana which he had further applied to improve relations with local customers.

Internal and external legitimacy cannot always be separated from each other and need to be seen affecting each other. Local presence was seen as important in SSA. The companies' experiences indicate that many of the constraints can be avoided when a foreign company is actively present in the SSA country which it aims to penetrate. But as learnt, a great majority of the case companies had difficulties finding qualified staff for their operations in the region. Lack of staff is a factor obviously affecting internal legitimacy, but it is linked to external legitimacy, too. Once firms are suffering of lack of qualified workforce they cannot maintain local presence as effectively as would be required in order to maintain legitimacy in that target country. For example Omnitele had problems finding people to send to Angola, which has a direct impact on its ability to manage its operations, whereas Tramigo had to stay out of some SSA countries due to the fact that they did not have enough human resources.

Good personal relations were not emphasized by all of the respondents but could be seen as crucial factor in external legitimacy. Personal relations do not only help to overcome different constraints arising from local institutional environments such as corruption, but also helps to create trust. According to Fafchamps, trust is crucial in doing business since it decreases uncertainty. Since many of the SSA business environments are constantly changing, personal relationships help companies to shelter and to achieve legitimacy from external claimants. Personal relations become important in terms of legitimacy because when trust grows in longer periods, personal relationships may become valuable assets for a foreign company. For example, the temptation for a local partner to change its foreign partner decreases and its integration to local markets fosters, because as noted by Cyrr Group personal

relationships and friendship become more valuable than short-time possible high earnings.

The use of Finnish embassies or outside consultants “to open doors” shows how important relations are in SSA. If companies are able to build strong local presence the use of third party network connections might diminish, because after all embassies and outside consultants are used by a foreign entrant because it is lacking contacts. Local presence, as noted, can benefit building long-term partnerships which can further positively affect local acceptance. Findings of this study also indicate that one needs to nurture relationships not only with the end customer, but also with the local partner. As Uhlenbruck et al. state, it is natural that the local partner becomes vital because it provides access to local networks, but as Cyrr executives stated it is important that the foreign company meets the end customers too and does not count on that local partner to nurture that relation totally on the behalf of the foreign company. SANAKO’s experience indicates, nonetheless, that even though a local partner exists it does not mean that business starts to bloom instantly, but rather shows that first step in integration to see effort creating sustainable business relationships.

There is no doubt that charity activities can have a positive influence on external legitimacy. Nokia, whose legitimacy is stronger in SSA than that of its competitors, aims to be an active member in those societies. Most of the large African companies are active in charity work, which is almost a necessity for big companies, because distributing wealth is one characteristic of many African cultures. It seemed that none of the case companies were active in charity work, but it could be clearly their way to increase their legitimacy in their target countries. Finland as a state provides only a fraction of the development aid to SSA of other Scandinavian countries, which means that Finnish firms cannot falsely assume that because Finland assists some of the SSA countries, companies as tax payers have no need to be active in corporate responsibility programs. In many SSA countries, it is a primary concern and in their best interest to develop their societies, thereby contributing to that target increases companies’ external legitimacy. It may have an effect on internal legitimacy too, since staff of the companies could demand an active and responsible approach in the matter. It was revealed that Nokia is actively involved in charity in a number of SSA countries, but is not good at making it public, which actually might be a problem.

Although active advertising of being socially responsible is a rather sleazy approach, a company should be prepared to inform its different stakeholders of its corporate responsibility. For instance, what a small company could do is publish a simple booklet to be given to local customers and partners disclosing how much money the company uses on charity and on which kind of projects. After all, if the company does not reveal how it contributes to societies, stakeholders might assume that it does not contribute at all.

Below, the empirical findings are presented in form of a table since all the findings could not be attached to the figure of theoretical framework. Nevertheless, empirical findings are divided in the table similarly to how they would in the theoretical framework.

Empirical findings				
Firm	Country	Institutional constraints	Strategic responses	Legitimacy
Omnitele	Angola	Poor infrastructure, High costs, Different time concept, change in business environment, fragile state environment, Poor financial infrastructure	Compromise, Defy	References, Official backing/Protocol, Local presence, Staff, Competent service
Jutel	Botswana	Bureaucracy, Legal system, HIV/AIDS, Culture, Networks	Compromise	References, Personal relations and trust, local partner, Local presence, Competent product
SANAKO	South Africa	Poor infrastructure, HIV/AIDS, Different market structure, Bureaucracy, Corruption	Compromise, Defy	References, Official backing, Personal relations, Official backing/Protocol, Local partner
Tramigo	Nigeria	Poor infrastructure, Fragile state environment, High costs, Corruption, Poor financial infrastructure and credibility	Compromise, Defy	Multiple local partners, local presence, Competent product
Cyrr Group	sub-Saharan Africa	Geographical distances, Poor financial infrastructure, Competition, Networks, Legal constraints, Corruption	All are possible	Personal relations and trust, local partner, local presence, Social responsibility, competent product
Nokia	sub-Saharan Africa	Different market structure, Poverty, Corruption, Poor financial system, Parallel exporting, Legal constraints	Manipulation, Defy	Local presence, Social responsibility, local distributors/partners, competent product

Table 5 Empirical findings

7 Conclusions

7.1 Summary

The initial challenge of this study was how to tackle the existing variety of institutional environments in Sub-Saharan Africa and to how to obtain information that could be extended to the whole region. Using the case method approach, additional company sources and secondary information, answers to the research problem were obtained. It seems that the institutional framework in SSA influences the entry strategies of Finnish ICT companies. The institutional environment forces them to favor indirect entry modes and outside consultancy to ease penetration to SSA markets. Although Omnitele and Jutel were able to enter directly to their primary target markets in SSA, they were both using outside consultancy or partners in other SSA countries. This indicates that the formal and informal constraints in SSA are so strong or different compared to Finnish circumstances that Finnish ICT companies do not have much of a choice regarding their entry modes. Indeed, Finnish ICT companies either approve to enter indirectly or their entry to SSA markets can be slowed down or even hindered. However, penetrating indirectly is not necessarily bad. For the foreign company, it is often the easiest and most profitable way to enter SSA markets. It allows companies to concentrate on their key competences and to provide their customers with the best service and product without having to use excessive resources. In addition, it allows companies to overcome different institutional constraints which would slow down their business since their knowledge of SSA markets is not sufficient.

This study was able to identify different formal and informal constraints which are relatively similar between different countries of SSA. The institutional constraints were based on interviews and match findings in books and scientific articles focusing on African business environments. The main finding, however, is that different institutional constraints influence companies' entry strategies differently, which is dealt with more closely in the next section. The results indicate that since most of the companies interviewed were not fully aware of all the factors or institutional pressures

affecting them, full compliance with the SSA institutional environment is not possible. Therefore, companies were compromising their company procedures and policies to match these pressures. Most companies also defy some institutional pressures, such as corruption, which ultimately forces them to choose local partners or distributors. For example, since Tramigo and Nokia use local partners and distributors who take care of imports, they do not need to get involved in bribing custom officials. It can be also understood that a local partner is there for responding to some pressures to which foreign companies are not able to respond themselves. There are also differences between companies concerning their responses to the institutional environment. Huge corporations such as Nokia can even use manipulative response tactics which are not possible for smaller companies due to smaller size and lesser resources. The significance of a local partner in SSA is strong since it also eases to overcome some of the institutional constraints.

Findings of this study also indicate that legitimacy has a great impact on market entry strategies. Legitimacy eases and in some cases enables penetration to SSA markets. The theoretical framework of this study emphasizes well how both external and internal legitimacy positively influence the outcome of the market entry to SSA markets, since lack of legitimacy could be an obstacle to market entry. The biggest threat for internal legitimacy for Finnish ICT companies was the lack of competent staff. All of the companies interviewed had difficulties finding the right persons for their African operations, which of course prevents them from assessing the potential in SSA markets. For example in the case of Jutel and Tramigo, Kai Mattlar and Arto Tiitinen were solely responsible of their African operations. A key factor for internal legitimacy for Finnish ICT companies was their product or service. In most of the cases, a product or a service, as explained earlier in this study, are ideal for SSA markets. A competent product increases legitimacy of one entrant compared to others. It helps to overcome institutional constraints such as corruption or networks because companies with a superior product or service do not have to open markets using corruption since the competitive product does it for them.

Local presence is a significant factor for external legitimacy since local institutional environments in SSA demand constant local presence. Local presence is a part of a

company's image in SSA, because if a foreign company is not locally well presented in SSA, it might indicate that the foreign company is not mature enough to have the right to stay in those markets. For instance, particularly Nokia's success in SSA is based on local presence. Having access to local networks and having good personal relations can also be seen as a primary factor for success in the SSA. Lack of personal relations is a clear barrier for entry in SSA and since most of the case companies did not have contacts in SSA they were relying on outside consultancy with access to local networks, which together with good references helped them to obtain external legitimacy.

7.2 *Theoretical contribution*

In this study, some of the earlier findings concerning the way institutions and institutional frameworks influence firms' entry strategies seemed to be applicable also in this study. Many of the earlier findings were yielded in researches done in Eastern Europe or Asia, but it seems that unstable institutions and institutional frameworks have similar kinds of affects on entry strategies of foreign companies in SSA as well. Consequently, the first theoretical finding in this study is that some of the main assumptions of how institutions influence foreign companies apply to SSA, too. Many of the earlier studies do not go into much detail regarding how institutions actually affect foreign companies' entry strategies. Meyer (2001), Clemens and Douglas (2004), and Oliver (1991) all concluded similarly that the stronger the institutions' complexity or the stronger the institutional pressures, the higher is the likelihood for firms to use indirect operational modes. None of these authors, however, go into detail or carefully describe the factors behind the institutional complexity or institutional pressures. In addition, authors such as Uhlenbruck et al., who found that a high level of corruption drives foreign companies to prefer indirect entry modes and choose a local partner, do not, nonetheless, take other factors into consideration. This can also be seen as other institutional constraints that also have an effect on firms' entry strategies. After all, factors or institutional constraints such as corruption, networks or legislation cannot be seen affecting separately, but as factors which together influence the final outcome or decision of the entry mode of a foreign company.

According to Whetten (1989), theoretical contribution does not occur if an old model is applied to a new setting. Therefore, although most of the assumptions and findings of institutional theorists also apply to SSA and support the findings of this study, it is not theoretical contribution. The actual theoretical contribution of this study is related to the findings relating to institutional constraints of SSA. By assessing more closely different institutional constraints of institutional framework of SSA allowed to achieve contribution to theory. This study shows that different institutional constraints influence, at least in two ways, firms' market entry strategies. Some factors directly influence the entry-mode choice, whereas others influence them indirectly by creating an institutional framework which foreign firms need to conform to if they want to perform in these markets. This finding also supports Peng's view presented in the theoretical framework of this study. In other words, firms can seek legitimacy and economic efficiency at the same time. For example, a foreign partner or a good personal relationships lowers uncertainty and therefore transaction costs, but also helps to gain external legitimacy since good personal relationships and access to the network is also required to achieve legitimacy in those markets. In addition, utilizing local networks is also a factor increasing a firm's economic efficiency in SSA, which as a research finding justifies the view that economic efficiency and legitimacy do not necessarily exclude each other.

7.3 Managerial implications

While conducting this study, it became evident that most of the managers are not totally aware of the different institutional constraints or pressures affecting them in SSA. This study provides detailed information on different institutional constraints in SSA, particularly in Angola, Botswana, South Africa and Nigeria, providing managers valuable information concerning the kind of institutional forces that prevails in those environments. This is particularly important since informal constraints can in many cases be stronger than the formal ones. In terms of market entry strategies – the more managers are aware of different constraints of the institutional framework – the better they are able to plan their market entries according to these constraints.

As regards the importance of personal relations in network economies such as in Sub-Saharan African ones, it was found in this study that lack of personal contacts was significantly slowing down integration to these regions. Since personal relations are everything in business for Africans and highly valued by them, they should be assessed as vital by foreign managers, too. Fafchamps stated that by nurturing relationships in Africa, a foreign firm is able to access local networks, providing it wants and sees them as important. The significance of personal relations will remain in Africa at least for the next thirty years, which means that if a foreign company desires external legitimacy, it needs to accept that it needs to invest in relations. Local presence plays a key role in this. To ease the building of local networks, awareness of local cultures and habits is important. None of the case company managers interviewed, excluding Kai Mattlar, were able to identify tendencies and features in African cultures. This of course demands genuine interests in African cultures and people. Some managers complained that Africans want to do business primarily with other Africans; thereby it does not harm foreign managers to try to learn more about the African way of doing things instead of trying to cooperate with them as they do with managers in the West, which could be partly unfamiliar for Africans.

Since local partners are extremely important in SSA, they can significantly slow down or accelerate integration to these markets. It is important that foreign managers invest enough time and consideration in tracking down the best possible partner. As we noted, most of the case companies used outside consultancy for finding a local partner. Nevertheless, it is important to emphasize that outside consultancy, an official protocol or a local partner cannot do everything for a foreign entrant. Active participation and local presence is needed from the entrant company side or integration to these markets slows down significantly as happened to SANAKO.

Managers should also put more emphasis on corporate responsibility. The business in SSA is often extremely profitable for foreign companies, but Finnish managers still do not consider corporate responsibility important. Nokia was probably the only company interviewed in this study taking an active role in corporate governance. However, Thierry Delarue noted that although Nokia does more than other companies, it is not good at reporting this. Although it is sleazy to use corporate

responsibility as a marketing weapon, managers still need to be able to communicate that they perform in a responsible manner to the community.

7.4 Limitations to the study

The main limitations in this study are related to choice of methodology. As noted in the methodology part of this study, case studies have been criticized of being subjective and difficult to replicate. This matter was tackled by adopting as objective an approach as possible to case companies and by maintaining an independent research approach by understanding that the choice of methodology could yield subjective results. Although interview formulae were documented, it could be difficult to replicate cases since another researcher does not necessarily possess enough background data to successfully conduct in-depth interviews. In addition, each of the in-depth interviews can be seen as unique and therefore once replicated could yield slightly different answers. However, the answers yielded from in-depth interviews were often quite general, which could ease the possible replication of cases.

Another limitation relates to the geographical scope of this study which is sub-Saharan Africa. Since the SSA region covers so many different countries, this study was restricted to only selected examples of SSA region which were taken into account. Besides, most SSA countries are still unknown target countries for Finnish ICT companies, whose integration to the region is still at its initial phase. Nevertheless, each of the selected country examples was quite different from each other for instance in terms of easiness of doing business.

The number of cases can also be seen as a limitation of this study. There was only one case company representing one example country of SSA and thereby relying only on one company could provide too subjective answers concerning the institutional framework of one specific example country. This limiting factor was, however, reduced by using other sources of information to analyze the market environment of each example country. There is also a limitation in the depth of this study since only executives of Finnish companies were interviewed, and the basic indicators to assess business environment in selected countries are all developed in Western countries and

according to their measurements of African business environments. No local African executives of example countries were interviewed to gain information of institutional constraints from the local perspective. This was a conscious decision since there were financial restrictions which prohibited collecting primary data from example countries.

This could have influenced the results of this study since it can be expected that local African executives would be aware of some institutional constraints and their implications to foreign companies better than foreign, in this case Finnish, executives. On the other hand, Finnish executives were better able to answer questions concerning formal or informal constraints since local executives could not necessarily see them affecting foreign entrant companies, or affecting them differently. Another major limitation is the ongoing global economic or financial crisis, which has not been taken into account in this study. The financial crisis surely has different kinds of impacts on Sub-Saharan Africa and its institutional environment. Exclusion of the financial crisis could be justified since its implications for SSA are still uncertain. At this time, the whole crisis is going on and its very nature is not certain. In consequence, it could be dangerous to assess its effects on the SSA institutional environment.

7.5 Suggestions for further research

One of the main findings of this study is the significance of a local partner or middleman. Thereby one could go more into detail and study how for instance the choice of a local partner influences the outcome of the market entry or success of foreign entrant companies when they are about to penetrate SSA. Since the role of the local partner is so vital in SSA, studying local partners and their performance could yield significant information on how companies compete and survive in environments drastically different from Western market environments and “rules of the game”. Local partners and middlemen in SSA are certainly better adjusted to the institutional framework than foreign entrants are, as was found also in the research, but one could also study how African companies perceive institutional environments in Western countries and how they change their organizational practices or what kind of implications to their market entry strategies overall different institutional framework

could result for them. Could African firms and their market entry strategies be less affected by the institutional framework in Western countries and what kind of institutional constraints would they be facing there?

This study yielded some other further interests towards the institutional environment of SSA and SSA as a whole. Since SSA is a vast region, one way to receive more detailed information of the institutional environment of that area is of course to concentrate just on one country and one industry and not necessarily the ICT sector. If one thinks further about research in a more theoretical sense, one could study more closely different institutional constraints and their affects on market entry strategies. This study found that different institutional constraints influence the choice of market entry mode differently. One could study more closely the institutional environment of one SSA country and identify which institutional constraints have a direct influence on the choice of market entry, and which have an indirect effect. And perhaps one could study other possible ways in which different institutional constraints could affect foreign companies' behavior.

One last suggestion for further research concerns the legitimacy of foreign companies. In this study, it was found that gaining both internal and external legitimacy in SSA is both needed and important, but can create economic efficiency by lowering transaction costs. One suggestion for further research regards the way companies maintain legitimacy in SSA when some of the fundamental elements of institutional environment change. For example, when making this study, there were severe political changes in some countries of SSA. For example, the President of Guinea-Bissau, Joao Bernardo Vieira, was shot dead by renegade soldiers and the democratically elected President of Madagascar, Marc Ravalomanana, was displaced in a coup d'état. Therefore, one could research legitimacy from the point of view of how the legitimacy is affected in case of disorder, coups and bloodshed. Do foreign companies lose their legitimacy, which could pose a barrier to entry as Kostova and Zaheer state? And more in general, what kind, and to what extent drastic, often violent changes in SSA institutional environments impact on legitimacy of foreign companies? Consequently, the SSA context provides many opportunities for scientific research.

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Company websites

www.omnitele.fi

www.jutel.fi

www.sanako.com

www.tramigo.net

www.cyrrgroup.com

www.nokia.com

APPENDICES

Paying Taxes (2008) Source:

[:http://doingbusiness.org/Exploretopics/payingtaxes/?direction=Asc&sort=7](http://doingbusiness.org/Exploretopics/payingtaxes/?direction=Asc&sort=7)

Region	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
East Asia & Pacific	24,90	251,6	20	11,10	7,60	38,7
Eastern Europe & Central Asia	47,2	366,8	11,80	26,10	10,20	48,1
Latin America & Caribbean	34,8	393,5	20,40	14,60	13,60	48,1
Middle East&North Africa	22,8	216,3	12,9	16,30	4,10	33,3
OECD	13,4	210,5	17,5	24,40	3,40	45,3
South Asia	31,5	293,3	18,1	7,50	14,70	40,4
Sub-Saharan Africa	37,8	311,7	21,5	13,20	32,00	66,7

Real GDP per Capita growth in SSA Source:

<http://www.imf.org/external/pubs/ft/reo/2008/AFR/eng/sreo1008.pdf>

Real GDP per capita growth	2003	2004	2005	2006	2007
Oil exporting countries					
Angola	3,30	11,20	20,60	18,60	21,10
Cameroon	1,2	0,90	-0,7	0,7	1,2
Chad	5,8	4,8	30,4	5,9	-1,2
Equatorial Guinea	9,3	30,1	3,5	-1,9	4,1
Gabon	-0,1	-1,4	0,5	-1,5	2,1
Nigeria	7,7	3,2	4,6	2,7	5,5

Continued...

Middle-income countries	2003	2004	2005	2006	2007
Botswana	6,1	6,1	6,6	4,8	5,2
Cape Verde	2,8	2,5	3,8	3,8	4,6
Lesotho	0,8	1,9	1,8	3,7	3,2
Mauritius	2,7	3,7	2,2	2,9	3,3
Namibia	2,1	5,3	3	3,8	3,9
Seychelles	-7,7	-3,7	1,1	2,6	4,9
South Africa	2,1	3,8	4,1	3,9	3,7
Swaziland	0,5	-0,1	0,4	0,3	-0,3

Low-income countries	2003	2004	2005	2006	2007
Benin	2	0,1	0	1,1	1,4
Burkina Faso	4,6	1,4	4,6	4	4,1
Ethiopia	-6,1	10,1	7,3	7,6	3,6
Ghana	2,6	3	3,2	3,6	3,7
Kenya	0,7	2,4	3,8	4,1	4,4
Madagascar	6,7	2,3	1,7	1,9	2,7
Malawi	1,6	2,8	0,1	6,4	3,6
Mali	4,8	0,1	3,7	2,2	3,3
Mozambique	5,9	5,6	5,3	6,1	4,4
Niger	1,3	-3,6	3,6	0,3	1
Rwanda	-1,9	1,2	0,7	2,4	2,8
Senegal	4,1	3,1	3	0,8	3,1
Tanzania	3,6	4,4	4,5	4	5,2
Uganda	0,9	2,1	3	1,8	2,5
Zambia	2,7	2,9	2,7	3,5	3,5

Fragile countries	2003	2004	2005	2006	2007
Burundi	-4	2,8	-1,1	3,1	3,4
Central African rep	-9,4	-0,7	0,2	1,5	2
Comoros	0,4	-2,30	2,1	-0,8	0,9
DRC	2,8	3,5	3,3	2	3,4
Côte d'Ivoire	-3,2	0	-0,3	-0,1	0,2
Eritrea	1,3	0,5	2,3	-0,4	-1,1
Gambia	3,9	4,1	2,3	3,7	4,2
Guinea	-2,3	0,1	0,2	-0,2	-0,5
Guinea Bissau	-3,6	-0,8	0,2	-0,2	-0,5
Liberia	-34,3	-5,7	8,1	7,1	10,7
São Tome and principe	1,9	2	3,9	5,9	4,9
Sierra Leone	6,7	4,6	4,5	4,7	3,8
Togo	2,4	-0,3	-1,4	-0,8	0,2
Zimbabwe	-11,3	-3,6	-5,3	-4,8	-5,7

Mo Ibrahim Governance Index (2008)

Source:<http://www.moibrahimfoundation.org/index2008>

Source:<http://www.doingbusiness.org/EconomyRankings/>

Ease of doing business (2008)

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Corruption Perception Index SSA(2008). Source: Transparency International,

http://www.transparency.org/policy_research/surveys_indices/cpi

Country	Country Rank	Regional Country rank	CPI Score
Botswana	36	1	5,8
Mauritius	41	2	5,5
Cape Verde	47	3	5,1
South Africa	54	4	4,9
Seychelles	55	5	4,8
Namibia	61	6	4,5
Ghana	67	7	3,9
Swaziland	72	8	3,6
Burkina Faso	80	9	3,5
Madagascar	85	10	3,4
Senegal	85	10	3,4
Lesotho	92	12	3,2
Mali	96	13	3,1
Gabon	96	13	3,1
Benin	96	13	3,1
Tanzania	102	16	3,0
Rwanda	102	16	3,0
Zambia	115	18	2,8
Malawi	115	18	2,8
Niger	115	18	2,8
Mauritania	115	18	2,8
Sao Tome and Principe	121	22	2,7
Nigeria	121	22	2,7
Togo	121	22	2,7
Eritrea	126	25	2,6
Ethiopia	126	25	2,6
Mozambique	126	25	2,6
Uganda	126	25	2,6
Comoros	134	29	2,5
Liberia	138	30	2,4
Cameroon	141	31	2,3
Kenya	147	32	2,1
Côte d'Ivoire	151	33	2,0
Central African Republik	151	33	2,0
Gambia	158	35	1,9
Guinea-Bissau	158	35	1,9
Congo, Republic	158	35	1,9
Angola	158	35	1,9
Burundi	158	35	1,9
Sierra Leone	158	35	1,9
Zimbabwe	166	41	1,8
DRC	171	42	1,7
Equatorial Guinea	171	42	1,7
Chad	173	44	1,6
Sudan	173	44	1,6
Guinea	173	44	1,6
Somalia	180	47	1,0

World Bank Doing Business Index, Example Countries (2009) Source:

<http://www.doingbusiness.org/EconomyRankings/>

World Bank Doing Business Index
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Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits
South Africa	32	47	48
Botswana	38	80	119
Nigeria	118	91	151
Angola	168	156	125

Economy	Employing Workers	Registering Property	Getting Credit	Protecting Investors
South Africa	102	87	2	9
Botswana	73	29	43	38
Nigeria	27	176	84	53
Angola	174	173	84	53

Economy	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
South Africa	23	147	82	73
Botswana	17	149	92	26
Nigeria	120	144	90	91
Angola	130	172	179	142

Example of interview formula

Haastattelu toinen osa.

Tramigo Nigeriassa

- Miten ja miksi päädyitte etabloitumaan Nigeriaan?
- Millaisena näette Nigerian näkymät markkinoilla? Luuletko että talous vielä kiihtyy kun öljyntuotanto palaa taas kehiin?
- Millaisia käsityksiä/taustatietoa teillä oli Nigeriasta ennen kuin aloititte tunnustelut?
- Millaiseen toimintamuodon valitsitte? Oliko teillä paikallinen tai Suomalainen välikäsi vai asioitteko Suoraan asiakas yrityksen kanssa?
- Onko teillä yksi vai useampi asiakas jakelija, hallitsetteko jakelukanavan täysin
- Nigeria oli Doing business rankauksessa sijalla.118 Kuinka vaikeaa Nigeriassa on tehdä businesta? Kertooko tuo rankkaus mielestänne totuuden Nigerian markkinaympäristön kompleksisuudesta?
- Millaisia haasteita ja ongelmia koitte Nigeriaan menon yhteydessä? Mitkä ovat olleet suurimpia yllätyksiä?
- Jouduitteko markkinoille tulon aikana olemaan yhteyksissä viranomaisiin?
- Koittako ympäristön painostavana vai mahdollistavana? Törmäsittekö joihinkin tekijöihin esim. epävarmuuden tunteeseen, joka olisi muuttanut käyttämistänne verrattuna suunniteltuun strategiaan?
- Onko olemassa mitään muita tekijöitä kohdemaan liiketoimintaympäristössä Mitkä yritysten on hyvä muistaa Nigeriaan saavuttaakseen onnistuneen markkinoille tulon?
- Onko ICT-alan osittainen liberalisointi vaikuttanut toimintaanne millätavoin?
- Kuinka paljon teidän täytyi sopeuttaa teidän palvelua vastaamaan paikallisia oloja?
- Onko ollut vaikeata ymmärtää Nigerian markkina ja asiakatarpeita?
- Saattoiko tämä sopeutuminen olla ristiriidassa aikaisempien linjauksienne kanssa ?
- Miten hallitsitte riskit kyseisessä maassa? Koittako epävakaa (fragile) yhteiskuntarakenteen riskinä?
- Vaikuttiko ympäristön kompleksisuus lainkaan siihen minkä toimintatavan valitsitte maassa?
- Koettako lainsäädännön rajoittavan yrityksenne toimintaa maassa ? Miten reagoitte siihen?
- Millä tavalla paikallinen kulttuuri vaikutti toimintaanne maassa? Koettiko jotain piirteitä kulttuurissa jolla oli suoraa vaikutusta projektinne? Esim. rajoittavaa tai mahdollistavaa vaikutusta.
- Miten hoidatte/hoiditte suhteita paikalliseen asiakkaaseen? Miten luottamus rakennetaan Nigeria?
- Nigeria on eräs Afrikan pahiten korruptoituneita maita, oletteko törmänneet korruptioon maassa?
- Kuinka vaikeaa maassa on toimia ilman sotkeutumista korruptioon? Luuletteko että kilpailijat tai muut ulkomaiset yritykset saattavat turvautua korruptioon Nigeriassa asioiden vauhdittamisessa?
- Miten pyritte hallitsemaan riskit ja epävarmuuteen liittyvät tekijät? Myönnettiinkö teille vientitakuuta?
- Onko olemassa mitään tekijöitä kohdemaan liiketoimintaympäristössä mitkä yritysten on hyvä muistaa Nigeriaan saavuttakseen onnistuneen markkinoille tulon
- Miten Nigeria on kokemuksissaan eronnut muista SSA maista ja miten millä tavalla haasteet siellä on ovat samanlaisia kuin muilla markkina-alueilla?
- Millaista kokemusta olette Nigeriasta saaneet ja miten se on auttanut toiminnassanne muissa Afrikan maissa? Mitä koitte oppineenne siellä?