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MARKET ENTRY STRATEGIES FOR A TRANSITION COUNTRY,
KENYA:
A CASE STUDY OF YIT OYJ

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Market Entry Strategies for a transition country, Kenya: A case study of YIT OYJ

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It is becoming more and more important for companies to internationalize in order to compete and to grow. Since many markets are almost saturated, companies are forced to seek and exploit new opportunities and these opportunities are often found in developing economies.

Developing countries have a great potential for future growth. However, they can be difficult to function in due to for example non-westernized business practices. For this reason, the mode of entry strategy has to be carefully evaluated and selected. This research covers the area of mode of entry strategies that would be used by a Finnish firm, YIT Group to enter a developing country, Kenya. The focus is on motives to enter developing countries, the strategies used to enter developing countries, the factors influencing the decision of entry strategy, and finally problems companies entering developing markets experience.

In order to reach this purpose, a case study of a Finnish company within the subject area, through an interview was conducted. The main findings are that the most significant motive to enter developing countries is potential growth of the market, the most suitable entry mode strategy is joint venture, the most significant factor influencing the entry mode decision is the legal framework, and the largest problem experienced by companies investing in the country is bureaucracy.

Key words: Internationalization process, internationalization motives, market entry strategies, Kenya,

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1 INTRODUCTION

Trade has been important for countries in order to take advantage of resources that exist in other parts of the world. Since the 16th century it has been preferred to operate a trade surplus, that is, to export more than a country imports. Further, international business is at present growing at a faster rate than global production, which implies the importance for many companies to expand their business internationally. (Daniels & Radebaugh 2001, 14) Finland is a country dependent on international trade due to its limited size. This has led to a high degree of internationalized companies in relation to the country's population.

The market environments are undergoing significant changes. Firstly, the ever-increasing number of competitors in industrial countries, that is, high income countries (Daniels & Radebaugh 2001, 22), makes it interesting for companies to conduct their businesses in other developing areas of the world. Secondly, there are currently a number of transition economies which according to Czinkota & Ronkainen (2003, 747) "the transformation of nations from planned into market economies". These countries are undergoing changes in their economies and political environments that present potential future markets and therefore interest foreign investors. Moreover some companies have doubts about reaching their strategic objectives by staying in the home market, since it can be saturated and foreign markets can be growing faster, and therefore might be of more interest to the company (Root 1994, 270). In other words, many companies see opportunities in these changing environments and therefore decide to internationalize. However, it is important for these companies to choose a suitable target market.

There are a great number of transition economies in the world that are interesting from a future trade perspective, and a few examples are Russia, the Baltic States where YIT OYJ already has operations, Poland, China and post- colonial Africa such as Kenya. Kenya is one of the transition economies from the post- colonial Africa that in particular presents an interesting market for YIT OYJ, due to its size, natural resources and expected economic growth. Additionally, the Kenyan economy is becoming more stable both financially and politically. As an example, the GDP (Gross Domestic Product) increased more than in other African countries between 2002 and 2006.

Statistics also show that foreign investment in Kenya has been growing significantly. However it is important to consider the main barriers for doing business in Kenya, which are for instance custom procedures and corruption.

1.1 Purpose of the Study

The purpose of this study is to gain a deeper understanding of the mode of entry strategies or strategy that would be used by the Finnish company, YIT Corporation, to enter a transition market, Kenya. The study examines both internal and external factors that influence the company to venture into the new market. Advancements in the industry and the prevailing Kenyan market conditions are also considered in the research. The authors of the study outline the need for a company to venture into new markets since the business environment in the global economy is changing rapidly and the most responsive companies to internationalization are likely to have a competitive advantage over others in the industry.

1.2 Choice of Research Context

The case company, YIT OYJ, provides the opportunity to research in this area of study. Finland is a small market and in order for the company to grow, it needs to internationalize its operations into new markets. Kenya is a transition country among Russia and the Baltic States where YIT has operations. Since the company has an experience of transition markets it would be convenient to enter into post colonial Africa, and the problems faced in Russia for example are similar to those that have been highlighted in this research.

1.3 Research Problem

The research problem is to investigate what factors influence companies to internationalize, entry strategies, and factors that influence the entry mode chosen by the investor for a specific target country or market. In addition the research highlights the problems likely to be faced while entering a transition country.

1.4 Structure of the Study

The thesis is a research study consisting of three main sections: the theoretical background related to the study which is internationalization theory and marketing strategies, important factors of entering the Kenyan market and its related problems. The empirical study discusses YIT's market entry and strategies. The last section which is the conclusion of the research discusses the findings and suggestions. Figure 1 illustrates the structure of the thesis.

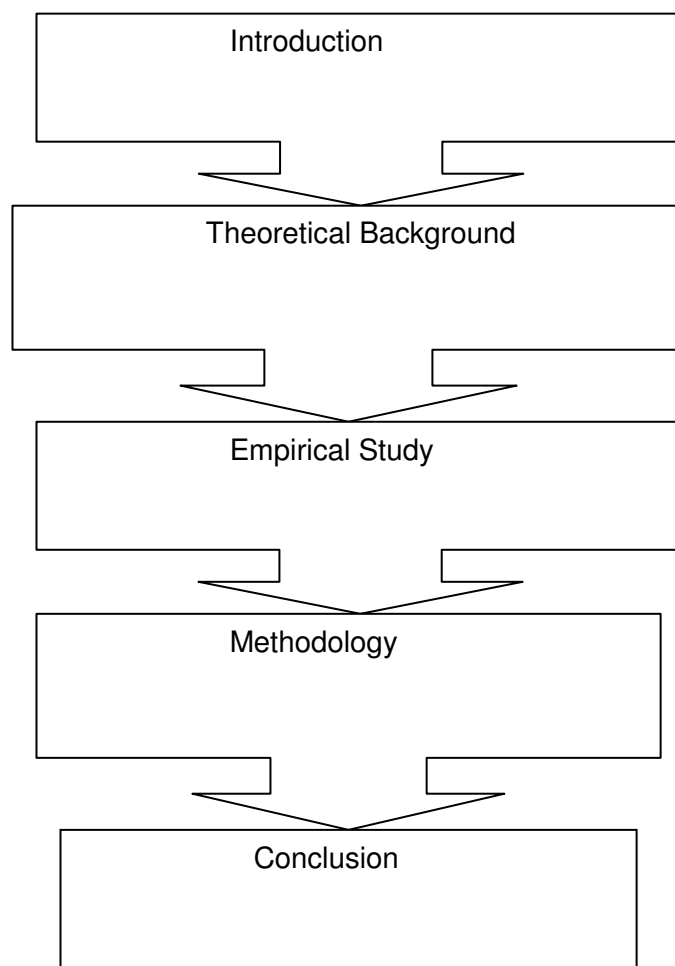


Figure 1: Structure of the study.

2 THEORETICAL DISCUSSIONS

According to Albaum, Duerr & Strandskov (2005, 2,) international marketing is defined as the marketing of goods and services, and information across political boundaries. It includes the same elements as domestic marketing that comprises of planning, promoting, distributing, pricing and support of the goods, services and information to be provided to intermediate and ultimate customers. In international marketing the process however, is typically much more complex and interesting than domestic marketing. This results from the fact that an international marketer encounters a number of key differences in foreign environments as compared to domestic environments. These may include differences in consumer tastes and needs, economic levels, market structures, ways of doing business, laws and regulations and cultural factors.

2.1 The Concept of Internationalization

The process theory of internationalization focuses on why companies gradually increase their international involvement. According to Czinkota & Ronkainen (2003, 4) international marketing is the process of planning and conducting transactions across national borders to create exchanges that satisfy the objectives of the individuals and organizations. The term international refers to either an attitude of the company towards foreign activities or the actual behavior of the company towards foreign activities abroad.

The attitudes and actual behavior are in a close relationship; thereby the attitudes constitute the basis for decisions to begin international activities from which the experience affects these attitudes. Czinkota & Ronkainen (2003, 5) suggests that international marketing is a tool used to obtain improvement of one's present position. The fact that a transaction takes place across national borders highlights the difference between domestic and international marketing. The international marketer is subject to a new set of macro environmental factors, to different constraints, and to quite frequent conflicts resulting from different laws, culture and societies. To succeed in a world of rapid changes and discontinuities, of newly emerging forces and dangers, of unforeseen influences from abroad, companies need to prepare themselves and develop active responses. New strategies need to

be envisioned, new plans need to be made, and the way of doing business need to be changed.

Internationalization results to an expansion of national markets, opening new opportunities in a global economic and technological system, in which a growing integration of national economies occurs (Czinkota & Ronkainen 2003, 7). The way to obtain leadership, economically, politically or morally is not through passivity but rather through a continuous alert adaptation to the changing business environment. The growth of global business activities offers increased opportunities. International activities can be crucial to a company's survival and growth. By transferring knowledge around the globe, an international company can build and strengthen its competitive position. Market saturation can be avoided by lengthening or rejuvenating product life cycles in other countries (Czinkota & Ronkainen 2003, 10).

International opportunities require careful exploration. What is needed is an awareness of global developments, an understanding of their meaning and a development of capabilities to adjust to change. Companies must adapt to the international market if they are to be successful.

2.2 The Growing Importance of International Marketing

As discussed by Albaum et al (2005, 2,), "in the 21st century, international marketing is proving to be of ever-increasing importance to companies of all sizes, to their customers, and to national economies. Consequently, the patterns of trade have changed to the extent that it is common to find different products and services in various parts of the world. The interest by business organizations in international marketing is the result of shifts in demand and supply characteristics in markets throughout the world as well as to the ever-changing competitive environment. There are a number of potential benefits from export marketing and in addition to various incentives that are offered to companies that are involved in international trade, many organizations are making internationalization a priority.

Luostarinen (1994, 1-2) defines internationalization as a sequential and orderly process. It can involve the interaction of environmental forces and managerial behavior as well as the main effects of each on itself. There are a number of factors that necessitate a company to internationalize. The figure 2 below shows

how the forces of firm factors, home country market factors, host country factors and global factors explain the movement towards increasing internationalization.

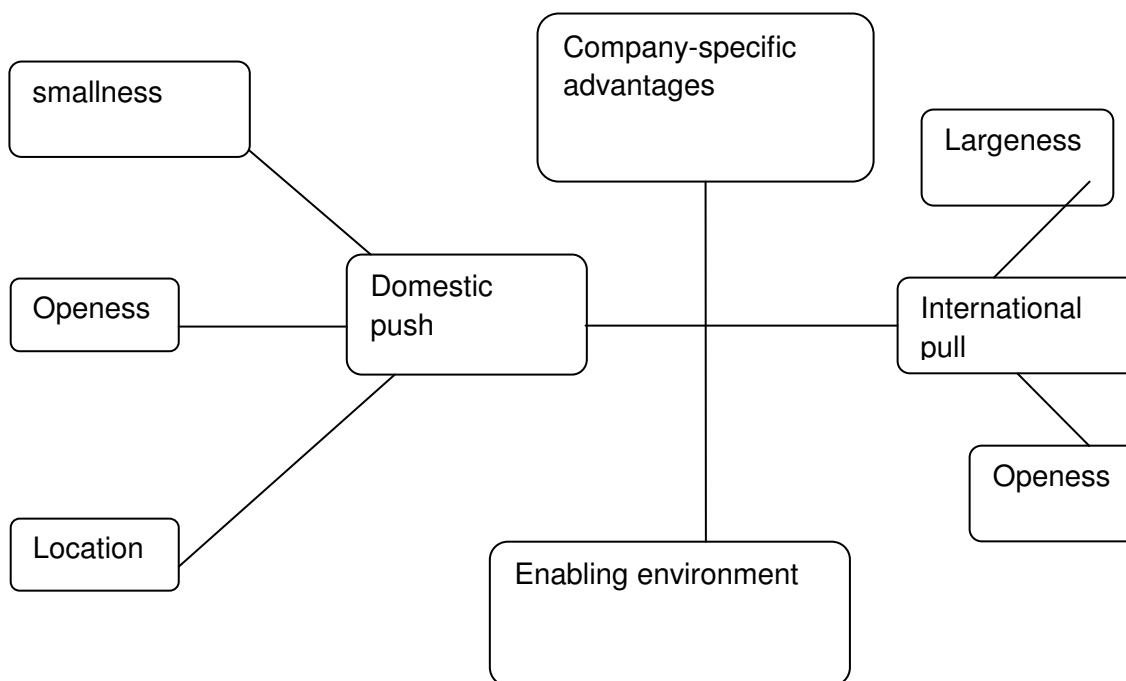


Figure 2 Factors explaining internationalization (Source: adapted from Luostarinen, 1994, 7)

Global forces facilitate the internationalization process by offering an environment which is increasingly positively positioned for the international growth of the company. Domestic push forces are pressuring the company to go abroad, and simultaneously international pull forces are motivating the company to internationalize. These macro forces acting together in the same direction form a strong basis and a source that prompts companies to internationalize. (Luostarinen 1994, 10) .

2.3 International Trade Theories

As outlined by Albaum et al (2005, 55), to understand the patterns of international trade, it is necessary to examine a number of trade theories since the underlying influences that govern trade among countries are complex and many. The theories explained in this research attempts to enlighten on the facts about trade with

emphasis with the current situation in the 21st century. The theories presented here are as follows: the classical theory of international trade, the factor proportion theory and the product life-cycle theory.

2.3.1 The Classical Theory of International Trade

Albaum et al (2005, 55-56) discusses that a country's exports and imports are determined not by its character in isolation but in relation to those of its trading partners. The concept of economic advantage states that countries tend to specialize in those products in which they have advantage namely lower cost of production. In addition, there are international differences in costs that must be considered namely: absolute differences, comparative differences and equal differences.

These differences all attempts to explain the cheapest way of production in different scenarios. The principles are important in understanding international trade and why it is important for many countries and organizations.

2.3.2 The Factor Proportion Theory

The factor proportion theory states that international differences in supply conditions e.g., factor productivities and endowments, explain much of international trade. The factor proportion theory argues that relative price levels differ among countries because they have different relative endowments of factors of production and that different commodities require that the factor inputs be used with differing intensities in their production. The principal explanation of the pattern of international trade lies in the uneven distribution of world resources among nations mixed with the fact that products require different proportions of the factors of production (Albaum et al 2005, 56-57.)

2.3.3 The Product Life-Cycle Theory

This theory is the most useful in explaining international trade patterns since the theories of economic advantage and factor endowments have evolved starting in the 1960s. This is mainly attributed to rapid technological progress and the development of multinational enterprises. According to Albaum et al (2005, 59-60), this theory of international trade has been found to be a useful model for explaining

not only trade patterns of manufacturers but also multinational expansions of sales and production subsidiaries and for this reason has been useful in explaining certain types of foreign direct investment. The product life-cycle concept states that “many manufactured goods undergo a trade cycle whereby during the process the innovator country of a new product is initially an exporter and then loses its competitive advantage to its trading partners and may eventually become an importer of the product some years later”.

2.4 Evaluation of the New Market

The assessment of a foreign market environment should start with the evaluation of economic variables relating to the size and nature of the markets. In addition, other variables relating to the markets characteristics are; population, income, consumption patterns, infrastructure, geography, and attitudes towards foreign involvement in the economy form a starting point for assessment of a market potential for the international marketer. (Czinkota & Ronkainen 2003, 127)

Political and legal factors often play a critical role in international marketing activities. Unexpected political or legal influences can lead to failure during market entry if not anticipated and addressed. Compliance with these factors is mandatory in order to do business abroad successfully. Culture is one of the most challenging elements of the international marketplace. An international manager to manage with this system needs both factual and interpretive knowledge of culture of the country intended to conduct business in. It is important to know the challenger, know the audience, and the customer. (Czinkota & Ronkainen 2003, 127)

2.5 Motivation for Market Entry

Czinkota & Ronkainen (2003, 226) suggests that it is usually a mixture of factors that results in firms taking measures in a given direction as in the case of internationalization. There are a variety of motivations both pushing and pulling companies to internationalize. They are differentiated into proactive and reactive motivations as shown in table 1.

Proactive motivations represent stimuli to attempt strategic change. Reactive motivations influence firms that are responsive to environmental changes and adjust

to them by changing their activities over time. In other words, proactive firms internationalize because they want to, while reactive ones internationalize because they have to (Czinkota & Ronkainen 2003, 207).

2.5.1 Proactive Motivations

According to (Czinkota & Ronkainen 2003, 279), the most stimulating proactive motivation to become involved in international marketing is the profit advantage. Due to relatively high start-up costs, the actual initial profitability of international start-up operations may be quite low.

Table 1 Motives to internationalize Czinkota & Ronkainen (2003, 226)

Proactive Motivations	Reactive Motivations
Profit advantage	Competitive pressures
Unique products	Overproduction
Technological advantage	Declining domestic sales
Exclusive information	Excess capacity
Managerial urge	Saturated domestic markets
Tax benefit	Proximity to customers and ports
Economies of scale	

The two types of motivations illustrated above are explained further below:

The gap between perception and reality may be particularly large when the firm has not previously engaged in international market activities. A second major stimulus results from either unique products or from a technological advantage. A firm may produce goods or services that are not widely available from international competitors or may have made technological advances in a specialized field. The intensity of marketing's interaction with the research and development function, as well as the level of investment into research and development, has been shown to have a major effect on the success of exported products. Czinkota & Ronkainen (2003, 226)

Exclusive market information is another important motivation factor. This includes knowledge about foreign customers, market places, or market situations that is not widely shared by other firms. Such special knowledge may result from a particular insight based on a firm's international research, special contacts a firm may have, or simply being in the right place at the right time. Czinkota & Ronkainen (2003, 226)

2.6 Market Entry and Decision Making

According to Albaum et al (2005, 245), "a market entry strategy consists of an entry mode and a marketing plan. The mode of entry is what is used to penetrate a target country while the foreign market marketing plan is used to penetrate a target market". The entry mode is important as it determines the degree of a company's control over the marketing mix, and to an extent the degree of commitment, in the target market. The decision about the entry method and the channel structure, the marketing channels currently available in a foreign market together with those channels by which the market is reached in the first place are of paramount importance to the company's management.

Developing an entry mode requires the planning of two factors that are involved when its products or services pass through the structure of distribution namely the flow of transactions and the flow of the physical product. In addition, the choice of entry modes or international marketing channels is important to management. Consequently a great amount of effort and patience must be provided by management when considering this decision. Decisions on international marketing channels influence the price that final users or consumers will pay for the product. To illustrate this, it has been noted that eliminating certain processes, for example marketing agencies, will save costs. (Albaum et al 2005, 245),

Policies concerning channels are related to production decisions. First, location of a production base (or sourcing) is the first channel decision that has to be made. Second, fluctuations in production may be reduced by proper selection of such channels. Greater production stability tends to eliminate or reduce problems of inventory control that are encountered by all the channel members. Moreover, production stability leads to security of employment, which is of increasingly great concern to individual workers, labor unions and national governments both at home and abroad. (Albaum et al 2005, 245),

Entry mode selection is important in that procedures for developing international channels can be slow and costly. The time and cost required in development can hinder a company that wants to expand its international operations by entering new foreign markets or a new industry. Economic conditions can have a major impact on intermediaries in a market thus affecting the international marketers as well. A case example is the Asian situation that existed in the very late 1990s, as it impacted on international manufactures/retailers and independent retailers, especially those handling luxury brands (The Economist 1998, 21).

2.7 Market Entry Methods

Albaum et al (2005, 251) argues that, “entry into foreign markets, initially and on a continuing basis, should be made using methods that are consistent with the company’s strategic objectives. The strategy for how foreign markets are to be entered should be viewed as a comprehensive plan, which set the objectives, resources, and policies that will guide a company’s international marketing operations over some future period which is of sufficient length that the company can achieve sustainable growth in foreign markets.”

The market entry methods differs in relation to a company’s involvement from virtually zero , when the firm merely makes the products available for others to export but effectively does nothing in the marketing of the products internationally, to situations whereby the company operates wholly-owned subsidiaries in all its key markets (Doole &Lowe 1999, 218)

2.7.1 Exporting

This channel according to Albaum et al (2005, 254) is “perhaps the simplest and easiest way to meet the needs of foreign markets is by exporting”. This approach has minimal effect on the ordinary operations of the company, and the risks involved are less than other alternatives. Management can choose from two broad avenues of exporting; indirect or direct exporting. These two basic forms of exporting are distinguished on the basis of how the exporting company manages the transactions flow between itself and the foreign importer or buyer. In indirect export the manufac-

turer utilizes the services of various types of independent marketing organizations that are located in the home country.

2.7.2 Licensing

This is one of the first means that a manufacturer can use in expanding international operations beyond exporting. It includes arrangements for the foreign licensee to pay for the use of manufacturing, processing, trademark or name, patents, technical assistance, marketing knowledge, trade secrets, or some other skill provided by the licensor. For an organization that strives to have a firm position in its investment abroad, licensing is a viable means of developing investment in overseas markets, and a complement to exporting and direct investment in manufacturing facilities. It often constitutes an introduction to a more permanent equity investment. (Albaum et al 2005, 254)

2.7.3 Contract Manufacturing

This strategy involves contracting for the manufacture or assembly of products by manufacturers established in overseas markets, while still retaining responsibility for marketing. Often this approach is used for sourcing because of a lower cost of production. This method allows a company to enter international marketing without making the final commitment of setting complete manufacturing and selling operations yet open for implementing a long-term development policy at an appropriate time. Often this approach is used for sourcing because of a lower cost of production. (Albaum et al 2005, 254)

2.7.4. Management Contacting

This market entry method involves a local investor in a foreign market providing the capital for an enterprise, while a company from “outside” provides the necessary know-how to manage the company. Such an approach to entering international markets is a low-risk way, if used with some type of purchase option. It allows a company to manage another company without equity control or legal responsibility. (Albaum et al 2005, 254)

2.7.5. Assembly Operations

In this strategy, a manufacturer exports components or parts which are then put together to form the complete product at the foreign assembly site. The establishment of assembly facilities represents a crossway between exporting and foreign manufacturing. When a product is exported in this manner, savings may be realized in freight charges, various foreign government fees and in some countries customs duties. (Albaum et al 2005, 254)

2.7.6. Manufacturing

According to Albaum et al (2005, 254) “the decision to manufacture abroad may be obligatory for a company because of competitive pressure, market demands, and government restrictions on imports or government actions that would result in imports being at a disadvantage”. The decision may be part of a company’s long-term plan to strengthen its international operations. It is not common for a company to establish manufacturing facilities as its first international business operation. Exceptions exist however if the policies and regulations of the foreign government are such that the best way to enter the market is through direct investment in a manufacturing facility.

2.7.7 Joint venture

Root (1987) considers joint ventures to be the only feasible form of investment entry in some countries due to the prohibition or discouragements of sole venture by governments. Although joint ventures are commonly a response to host government policies, they can also bring positive benefits to the foreign partner through the local partner’s contributions.

There are five common objectives in a joint venture. These are: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits of this entry strategy include political connections and distribution-channel access that may depend on relationships. Such alliances often are favorable when the partner’s strategic objectives converge while the competitive objectives diverge, the partners’ size, market power, and resources are small compared to the industry’s leaders and

when partners are able to learn from one another while limiting access to their own proprietary skills. The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local company's capabilities and resources and government intentions. (Albaum et al 2005, 254)

2.7.8 Foreign Direct Investment

Foreign Direct Investment is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology and personnel. Direct foreign investment may be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However it requires a high level of resources and a high degree of commitment. (Albaum et al 2005, 254)

2.8 The Comparison of Market Entry Options

Different modes of entry may be more appropriate under different circumstances, and the mode of entry is an important factor in the success of the project. The table below illustrates the different modes of entry, their advantages, disadvantages and conditions favoring the modes. (Foley 1999, 344)

Table 2 Comparison of Market Entry Analysis

Mode	Conditions Favoring this mode	Advantages	Disadvantages
Exporting	Limited sales potential in target country; little product adaptation required	Minimizes risk and investment	Trade barriers and tariffs and to cost
Exporting	Distribution channels close to plants	Speed of entry	Transport cost
	High target country production costs	Maximizes scale, uses existing facilities	Limits access to local information
	Liberal import		Company viewed as an outsider

Mode	Conditions Favoring this mode	Advantages	Disadvantages
	<p>policies</p> <p>High political risk</p>		
Licensing	<p>Import and investment barriers</p> <p>Legal protection possible in target environment</p> <p>Low sales potential in target country</p> <p>Large cultural distance</p> <p>Licensee lacks ability to become a competitor</p>	<p>Minimizes risk and investment</p> <p>Speed of entry</p> <p>Able to overcome trade barriers</p> <p>High Return on Investment</p>	<p>Lack of control over use of assets</p> <p>Licensee may become competitor</p> <p>Knowledge spillover</p> <p>License period is limited</p>
Joint Ventures	<p>Import barriers</p> <p>Large cultural distance</p> <p>Assets cannot be fairly priced</p> <p>High sales potential</p> <p>Some political risk</p> <p>Government restrictions on foreign ownership</p> <p>Local company can provide skills, resources, distribution network, brand name, etc.</p>	<p>Overcomes ownership restrictions and cultural distance</p> <p>Combines resources of two companies</p> <p>Potential for learning</p> <p>Viewed as insider</p> <p>Less investment required</p>	<p>Difficult to manage</p> <p>Dilution of control</p> <p>Greater risk than exporting and licensing</p> <p>Knowledge spillovers</p> <p>Partner may become a competitor</p>
Direct Investment	<p>Import barriers</p> <p>Small cultural distance</p>	<p>Greater knowledge of local market</p> <p>Can better apply</p>	<p>Higher risk than other modes</p>

Mode	Conditions Favoring this mode	Advantages	Disadvantages
	Assets cannot be fairly priced High sales potential Low political risk	specialized skills Minimizes knowledge spillover Can be viewed as an insider	Requires more resources and commitment Maybe difficult to manage the local resources

2.9 Appropriate Market Entry Mode

The appropriateness of a specific entry mode relates to the ease or difficulty with which a company can enter new international markets. Successful foreign market entry requires a superior performance in all aspects of marketing: Entry is one of the tests of competitive ability. No longer is the company competing on familiar grounds, instead it has to expose its competencies in a new area. In deciding the appropriate mode of entry to foreign markets, companies must decide; what level of resource commitment they are willing to make and what level of control over the operation they desire (Gannon 1993, 41-54)

These two questions can only be evaluated in the context of the risk that the company believes it may encounter in the country being considered for entry. In high risk countries companies may not be willing to commit resources. In countries they perceive as low-risk countries, they may desire control over the operations that they are capable of managing the foreign operations as they manage the domestic. Risk perception, therefore, determines the evolution of the two questions which in turn leads to entry mode choice. The challenge of entering new international markets is difficult and successful companies use varying modes of market entry.

Certainly some companies use a variety of entry modes at the same time but normally in sequence depending on the nature of the market and strategy employed at different times or stages of the life cycle. Because of demand uncertainty in international markets, firms whose principal product is in the introductory or decline stage of the life cycle tend to avoid high control foreign market entry modes, whereas firms in the growth and mature stages may prefer high control modes. The principle mode of entry includes exporting, strategic alliances and foreign direct investment. (Bradley 2005, 282)

2.10 Factors Influencing the Entry Strategy Decision

According to Albaum et al (2005, 257) “the decision concerning what specific international marketing channels to use is not a simple one for the investor”. The author points out that there are a great variety of types of international marketing organizations and the many ways they may be linked together have generated different types of alternative marketing channel systems. Selection of mode of entry can be based on either or both of two broad approaches namely, through experience or through analysis.

A company decision’s that a particular entry mode is desirable is usually based on its own experience or that of other firms (competitive or otherwise). The same mode, or any other, may be derived after making an analysis of the marketing task, needs and buying habits of potential customers, and the competence of marketing organizations to perform various activities. In either approach, the end result is based essentially on need and capabilities. Thus, the decision mainly concern both internal and external considerations. (Albaum et al 2005, 257)

The entry method chosen should be one expected to give the greatest contribution to profit. Many of the selection criteria are qualitative in nature that often defies any attempt at quantification. These criteria are relevant for the needed entry mode strategy decisions that have to be made. Such decisions involve formulating policies for the following areas as argued by Albaum et al (2005, 257): the type or kind of entry mode to be used, the selection of individual channel members and managing the channel including relations with channel members and provision of feedback from the channel. The following factors determine the entry mode used by international marketers:

2.10.1 Target Market

Albaum et al (2005, 257) argue “that there are certain market-related factors that operate as international marketing channel determinants. These can be categorized into the following three groups: The nature, size and geographical distribution of customers; the needs, requirements and preferences of these customers and the level of economic development of the market”. In addition, political stability and legal barriers can be significant entry mode determinants

2.10.2 Product

Products variation in characteristics has a major effect in the channel selection. In this regard according to Albaum et al (2005, 258) such variations like unit value, weight and bulk, technical complexity and perishability are taken into account. For example, a technical product or service may require both before and after sale services. The stage of development of a product and its relative newness to a foreign market can have a bearing on the entry strategy that is used. In addition, if a company has a relatively unknown product, it would be important to rely upon agents instead of selling directly.

2.10.3 Availability of Marketing Organization

The existing structure of distribution affects the choice of market entry strategy. Availability of competent marketing intermediaries makes it possible for the international marketer to use them. Alternatively, the use of a more direct mode of entry has to be used in the absence of the intermediaries. In some instances; the lack of marketing organizations may be a deciding factor in a company's decision not to enter a foreign market. (Albaum et al 2005, 258-259)

2.10.4 Company Considerations

Company related considerations that influence the choice of entry strategy are many. They are an indicator of the marketing strength of the international marketer and this has a bearing on the choice of entry. The greater the marketing strength the more likely, the company will be able to sell directly. The factors considered include the following: marketing management capability and know-how, newness of the company to international marketing activities, size of the company and its product/service line and the financial strength and ability to generate additional capital if needed. In addition, influential people within the company's management can affect the choice of a channel. Also, the extent of control that is desired by the international marketer may affect the choice of the channel.(Albaum et al 2005, 260)

2.10.5 Parent Institutional Norms

As outlined by Albaum et al (2005, 257), generally, the greater the marketing strength the better able and more likely a company will be able to sell direct. Another company-related factor that can affect the choice of a channel is management prejudice. There are times when influential executives have a preference for a particular channel. Another company-related factor is the extent of control that is desired by the international marketer. This factor may affect both the channel between nations and channel within a nation. For the export mode of entry, for example, the use of indirect export gives weaker control over export sales than does exporting directly. Certainly, the truly integrated or captive channel gives the greatest control over export operations. For non-export operations, the greatest control (and risk as well) is derived from a wholly-owned overseas production or service facility.

2.10.6 Governmental Policies

All governments are concerned with protecting their political and economic interests domestically and internationally. Consequently, they have to formulate protectionist policies. These policies affect the channel of distribution chosen by a company in international business. General regulatory activities may discourage export entirely and determine production abroad if the market is to be served effectively. Another governmental factor in channel selection is the nature of any existing international business promotional program. Although governments tend not to promote imports, it may be that when such promotion is performed it is approved selectively and certain products are excluded (Albaum et al 2005, 257).

According to Albaum et al (2005, 262), one approach to the entry mode decision considers the extent of involvement as the key question. Each mode of entry can be viewed in terms of a desired degree of involvement. Indirect export would have the least involvement while equity investment would have the most involvement. Involvement depends upon location attractiveness, firm capability and perceived risk. With each of these determinants having two options (high, low), eight possible scenes become apparent, as shown in table 3. It illustrates the alternative levels of involvement and the cells are explained as follows; Cell 2 is the most attractive- a company wants to maximize involvement given the limiting factors, that is, if full

ownership is allowed this would be the choice. Cell 6 is the least attractive- a company wants no involvement or minimal involvement that is if it is approached by someone who wishes to buy its products and it will take all the risk the company would agree but would not target this market otherwise. Cells 1, 3,4,5,7 and 8 are mixed- a company must decide what degree of involvement would maximize the advantages and limit the effects of drawbacks.

Table 3 Alternative levels of involvement (Albaum et al 2005, 262)

1. High location attractiveness High capacity High risk	5 Low location attractiveness High capacity High risk
2 High location attractiveness High capacity Low risk	6 Low location attractiveness Low capacity High risk
3 High location attractiveness Low capacity Low risk	7 Low location attractiveness Low capacity Low risk
4 Low location attractiveness Low capacity Low risk	8 Low location attractiveness High capacity Low risk

2.11 The Environment of International Marketing

All marketing activities occur within legal, economic, cultural, political and other environments to which strategies and policies must relate. Marketers need to operate within the constraints of this environment, and in the case of international marketing there will be more than one environment constraining the company at any one time. (Bennet & Blythe (2002, 36).As is illustrated in figure 3, the problem in

international as opposed to domestic marketing is that the environments confronted are vastly more complex and extensive than for domestic operations. Each country has its own legal system, culture, social, political and economic infrastructure.

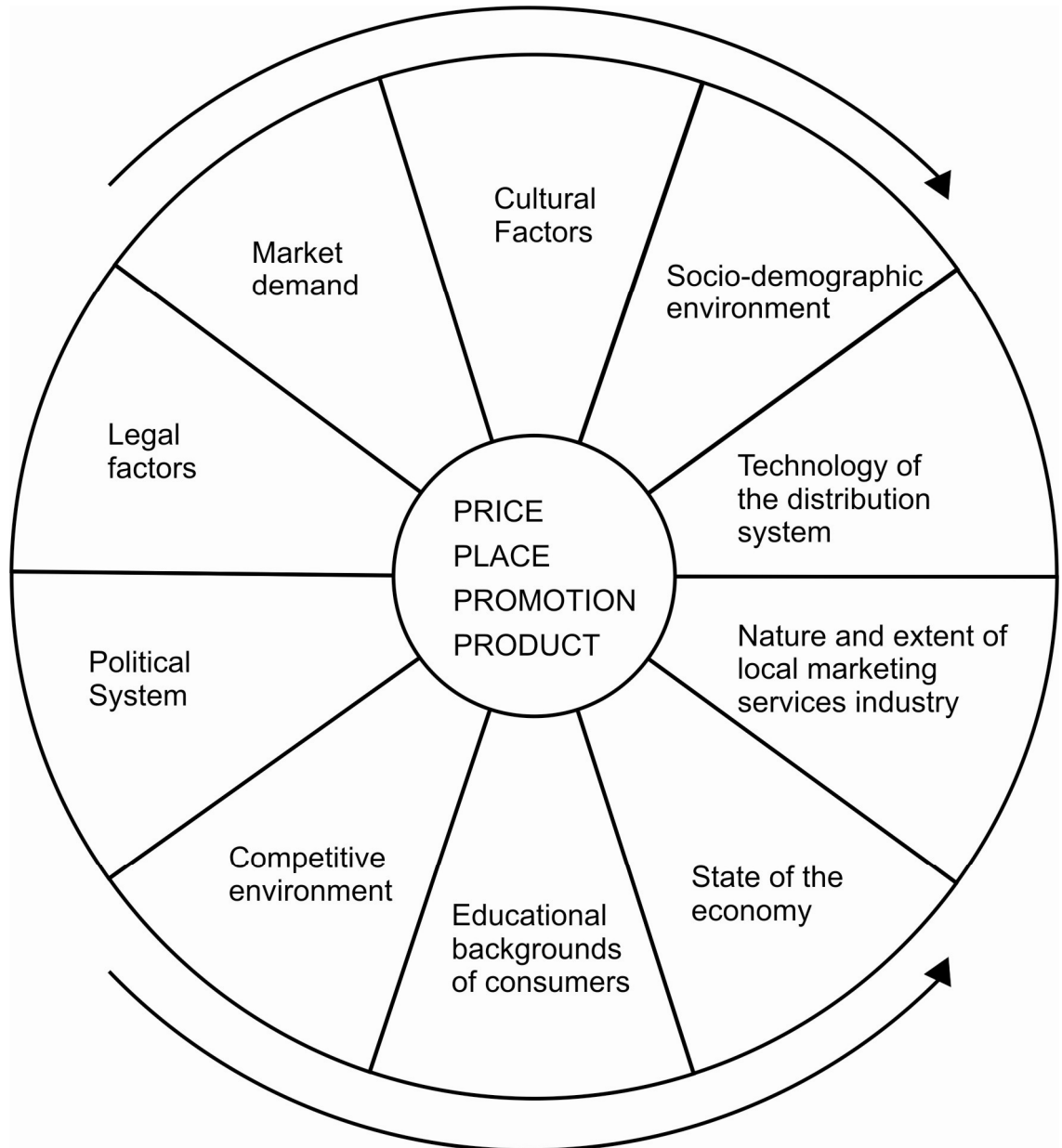


Figure 3 Environments and marketing mix Bennet & Blythe (2002, 37)

2.12 Risk and Control in Market Entry

The most important characteristics of the different market entry methods are the level of involvement of the firm in the international operations. The level of

involvement has significant implications in terms of levels of control and risk and this is shown diagrammatically in the figure below. The cost of resourcing the alternative methods usually equates closely to levels of involvement and risk. (Doole &Lowe 1999, 310).The figure 4 below does suggest, however, that associated with higher levels of involvement is not only greater potential for control, but also higher potential risk, usually due to the high cost of investment. Partnerships, in the form of joint ventures and strategic alliances are thought to cost, provided that there is higher degree of cooperation between companies and that their individual objectives are not incompatible. (Doole &Lowe1999, 314)

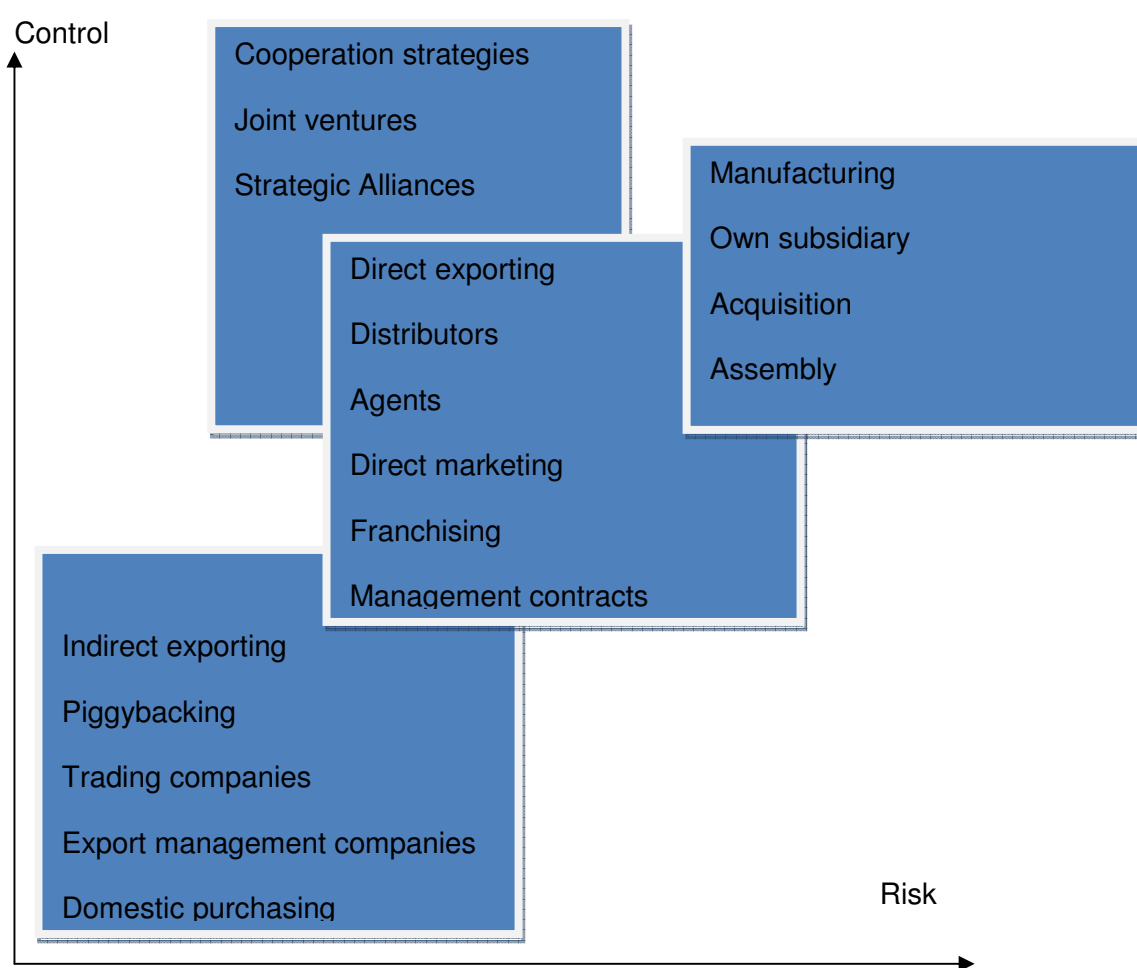


Figure 4 Risk and control in market entry (Doole & Lowe1999, 314)

2.13 Study Framework

Motives to enter a transition country are usually a mixture of factors that results in a firm taking steps in a given direction since in most business activities one factor

alone rarely accounts for any given action. In internationalization there are a variety of motivations both pushing and pulling firms along the international path. These are differentiated into proactive and reactive motivations.

Proactive motivations represent stimuli to attempt strategic change while reactive motivations influence firms that are responsive to environmental changes and adjust to them by changing their activities over time.

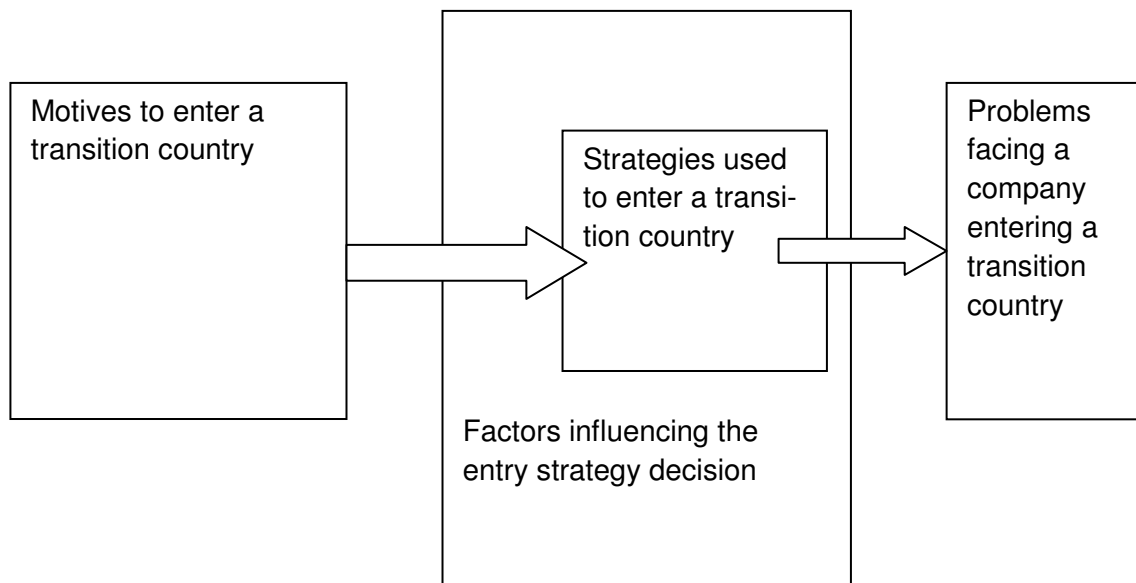


Figure 5 Study frame work

Strategies used to enter a transition country are important as they determine the degree of a company's control over the marketing mix and to an extent the degree of its commitment in the target market. The methods used for entry should be consistent with the company's strategic objectives. Entry mode is influenced by the international strategy implemented by the firm for its foreign venture or market expansion.

Various factors influence a company's choice of entry strategies. Selection of mode of entry can be based on either or both two broad approaches: through experience or through analysis. A company, through its own experience or that of other firms

may decide that a particular entry mode is desirable for its products. In contrast, the same mode, or any other may be achieved after making an analysis of the marketing task, need and buying habits of potential customers and the competence of marketing organizations to perform various activities. Thus, the decision requires both internal and external considerations.

Transition economies and markets offer attractive destinations for investments. However, an investor encounters a number of problems that exist in such countries. These obstacles or barriers to international trade that exist within the target country market may hinder the willingness to invest. A firm has to perform a risk assessment of the target market in order to avoid any failures.

3. METHODOLOGY OF STUDY

In this section, the authors will discuss the methodological issues connected to this research.

3.1 Approach of the Study

There are two types of research strategies: qualitative and quantitative approaches (Holme and Solvang 1991, 84). The purpose of a qualitative approach is to gain a deeper understanding and description of a problem, through gathering and analysis of detailed data of ideas, feelings and attitudes. It is conducted through deep interviews in one or a limited number of companies in order to obtain comprehensive information (Tull and Hawkins 1990, 100). For this reason, the questions are normally open-ended in qualitative interviews.

On the basis of the purpose and the research questions of this study, a qualitative approach was selected. The reason why it is suitable to utilize this method is because of the need to describe and gain a deeper understanding of the mode of entry strategies used when YIT OYJ enters transition countries. The data used in the research process was collected through the use of telephone interviews and email.

3.2 Research Strategy

A study according to Yin (1994, 34), can take place through five different research strategies, namely experiments, surveys, archival analysis, histories and case studies. Furthermore, Yin (1994, 37) states that the selection of the research strategies that can be utilized depends on three distinct conditions, these are;

- The type of research question asked
- The extent of control the investigator has over actual behavioral events
- The degree of focus on contemporary as opposed to historical events.

All these research strategies are outlined in table 4

Table 4 Relevant Situation for Different Research Strategies Yin (1994, 7)

Research ↓	Form of Re- search Question	Requires control over Behavioral Events	Focuses on Contemporary Events
Experiments	how, why	YES	YES
Survey	who ,what, where, how many, how much	NO	YES
Archival Analysis	who, what, where, how, how many, how much	NO	YES/NO
History	how, why	NO	NO
Case Study	how, why	NO	YES

As illustrated above, the research strategy suitable for the investigation depends firstly on the form of research question asked. Secondly, it depends on whether the author has control over the behavioral events or not, and lastly on whether the study is focusing on contemporary events or not. In this section all the research questions posed begin with how the research is intended to be organized. The alternative

research strategies available to be implemented include surveys and case studies. In order to limit the study to a specific research strategy, the research has to consider if the study requires control over behavioral events and/or focuses on contemporary events Yin 1994, 30).

Case studies are preferred when contemporary events are a subject of the investigation, and when the relevant behavior cannot be manipulated. In addition, case studies provide the researcher with an understanding and are therefore useful as an encompassing method Yin, (1994, 36). In this case, surveys were excluded since they may not be as wide-ranging as case studies, and therefore they cannot be applied when using qualitative research. (Saunders & Lewis 2000, 45)

3.3 Data Collection Method

Saunders & Lewis (2000, 227) states that there are two categories of collecting data, primary and secondary. They further mention that primary data is collected for a specific purpose by the researcher, while secondary data is data that has already been collected. Further, when a case study is performed it is possible to gather the data through documentation, archival records, interviews, direct observations, participant observation and physical artifacts. Yin (1994, 80) further argues that no single source of evidence has a complete advantage over the others. Instead, the sources complement each other with their individual strengths and weaknesses.

Documentation can take many forms, such as letters, agendas, written reports, administrative documents, formal studies or articles appearing in the mass media. For case studies, documentation is best used in order to support and argue evidence from other sources. Further, interviews are one of the most important sources of case studies. Case study interviews are open with open-ended questions, so that the researcher can ask the key respondent for actual facts as well as for the respondent's personal opinions regarding the topic. Structured interviews are those with pre-designed questions. Finally, focus group interviews are semi-structured research that allows for informal conversation in a predetermined manner. (Yin 1994, 86)

Yin (1994, 91) states that "a major strength of case study data collection is the opportunity to use many different sources of evidence" He further mentions that the

use of multiple sources is called triangulation, which allows the researcher to acquire multiple measures of the same phenomenon, which adds to the validity of the scientific study.

An open telephone and email interview were conducted. Probing techniques were used during the interview, which means that the interviewer continuously checks the correctness and accuracy of the given answers by posing follow-up questions to the respondents. Documentation was used as a secondary source of data in order to support the findings of the interview.

3.4 Data Analysis

After deciding how to gather the data for this thesis, it is important to analyze this data. Yin (1994, 18) states that there are two different analytical strategies that the researcher can choose between before data can actually be analyzed: relying on theoretical propositions is when the results from previous studies concerning the research questions are compared to the research findings from the case study, and developing a case description that can be used when there is little previous research on the subject. For the reason that there is plenty of previous research on foreign market entry strategies, this thesis relied on theoretical propositions when developing the analytical strategies. A cross case analysis is done when data from one case is compared to other cases. However a thorough case analysis will be performed as illustrated in table 1. This, as previously mentioned, is performed through comparing the data collected from the case study to relevant theories. Firstly, data reduction was conducted, secondly the data was displayed and finally conclusions were drawn and the data verified.

4 EMPIRICAL STUDIES

This section is an analysis of the case company, YIT and the target market Kenya. The company's operations and business segments are analyzed and the potential market analysis is also applied to help understand the characteristics of the business environment in Kenya. The company's readiness to venture into a transition market is highlighted while the opportunities that exist for a construction firm like YIT in Kenya are discussed.

4.1 Selection of Case Study

The case was selected on the basis of availability of information of the case company including the market, customers, competitors, technology and the economy. The company's personnel were also willing to give us the necessary information about the company's experiences in the other transition markets (Russia and the Baltic's) where they have operations.

A case study was chosen for this research since the objective of this study was to gain a deeper understanding of the mode of entry strategies that would be used by a company to enter a market in transition. In addition, the authors also highlight the Kenyan market so that the reader is able to understand the nature of the market.

4.2 Company Background

YIT OYJ (YIT-Yhtymä is a diversified Finnish-based company with its headquarters in Helsinki, which provides a range of services, mainly to other businesses. YIT was founded in 1912, when Sweden's General Engineering Company established a subsidiary in Finland, initially to operate in the water supply sector. The Finnish translation of the group's title Yleinen Insinööritoimisto is the source of the name YIT. (www.yitgroup.com)

The company is operational through four principal divisions. Building Systems offers technical building systems, and property and industrial services. Construction Services is primarily focused on the construction of residential, commercial and industrial properties, as well as the provision of civil engineering, water and environmental services. Services for Industry specialize in the provision of industrial piping, tanks and pulp towers, access-control systems and industrial maintenance services. Data Network Services operates the planning, consultation, development, implementation and maintenance of communication solutions, including fixed and mobile network services. YIT Corporation is operational internationally with its largest markets in Finland, Sweden, Norway, Denmark, the Baltic countries and Russia. (www.yitgroup.com)

4.3 Current Activities

YIT has grown over the years-it is the largest construction company in Finland as of 2007-the success being attributed to the recent acquisitions and the company's readiness to internationalize. The company's revenue and workforce have multiplied in the last ten years and currently YIT is the largest supplier of building systems services in the Nordic region by sales. This growth is also reflected in the scope of YIT's business: long-term servicing and maintenance contracts for items such as steam boilers, piping, heating and plumbing and electricity networks. The construction services division, building homes, water and waste treatment plants and infrastructure ranging from railway stations to golf courses remains the group's largest source of revenue as of the end of 2006. (www.yitgroup.com)

The main point in the strategy of international operations of YIT is the performance of such operations in the foreign markets by the strength of local subsidiaries. For the years of its activities YIT has obtained thorough knowledge of conditions of work in the foreign markets and of laws and regulations of the countries where the company and its subsidiaries perform their operations. In its international activities YIT combines the corporative methods of work and thorough knowledge of local conditions. Resources of the big construction company ensure timeliness and stability of deliveries, observance of schedules and continuous high quality of work. (www.yitgroup.com)

Like any other corporate society, YIT's main objective is to grow profitably and develop its operations on the long term. The changing opportunities and challenges in marketing have led to increased emphasis on global expansion by various Finnish companies. In the 21st century, international marketing is proving to be of ever-increasing importance to companies of all sizes, to their customers and to national economies. The world economy is experiencing a boom and while growth is expected to continue, uncertainties in the world economy have increased. YIT is a Finnish company that has exhibited readiness to venture into new markets and regions of the world including the Kenyan market which is one of the subjects of this research. The company's currently operates in the Nordic countries, the Baltic countries and in Russia. (www.yitgroup.com)

4.4 Expanding Business Operations into New Markets

The company aims to expand its business operations such that as the societies and needs evolve, it also expand its service offering to cover new customer groups and growing market areas. The company extends the service chain to cover the whole life cycle of projects. In addition to new construction and maintenance services, it helps its customers to use the technical environment, develop property uses, offer services for the management of premises and their conditions, and assist industry to boost production efficiency (www.yitgroup.com)

Business operations focus on services in which YIT performs a great share of the work – that is, services with a high degree of added value. When YIT is responsible for the entire service chain, operating methods can be made more effective, thereby strengthening the profitability of operations. The longest service chain is found in services offered directly to households. In services offered to companies and institutions, its focus is on long-term service agreements and broad-scaled projects that aim to develop premises and their technical systems. (www.yitgroup.com)

The company's competitive capabilities in the domestic market, motivation for going international, commitment of owners and management, product readiness for foreign markets, skill, knowledge, resources, experience and training of employees all attributes to the need to venture in new regions of the world. Kenya's as a developing country has a large market for a company like YIT. There is need for building systems, construction and service for industry. Consequently, the Finnish corporation has considered Kenya the keystone of its marketing effort in Africa. The country is an emerging force in the region and provides a favorable environment for foreign investment either directly or indirectly.

In Kenya, YIT's target market would be the government and high to middle class business group and organizations. The company would have to decide on the entry method after conducting a comprehensive marketing research on what suits it most. It has relatively good brand recognition in the market but still has to promote the brand. (www.yitgroup.com)

4.5 The Company's Future Prospects

The demand for building system services is solid throughout the market area and the segment's order backlog is good. YIT aims at increasing its market share in building systems in all of the Nordic countries and venture into new markets In Africa, strong demand for housing continues. YIT's strong order backlog and volume of ongoing residential production provide good prerequisites for meeting the targets set for the Kenyan business. (www.yitgroup.com)

In Finland, construction remains at a good level on the whole but is more focused on business premise and infrastructure construction that have a strong order backlog. The outlook for residential production has weakened after last summer. Industrial Services enjoy a good order backlog. Business opportunities are found particularly in outsourcing of industrial maintenance in Finland. (www.yitgroup.com)

The economic outlook for YIT's area of operations remains favorable, even though uncertainties in the economy have increased. Consequently, estimates are that the revenue and profit before taxes for 2008 will increase compared to the previous year. On September 25, 2007, YIT Corporation's Board confirmed the Group's strategy and financial targets for the periods 2008-2010. The financial targets level were confirmed unchanged. The targets are: average annual revenue growth of 10 per cent, operating profit of 9 per cent of revenue by 2009, return of investment of 22 per cent, equity ratio of 35 per cent and a dividend payout ratio of 40-60 per cent of earnings after taxes and minority interest. (www.yitgroup.com)

In addition, YIT has set the target of increasing revenue in Russia by an average of 50 per cent annually during the 2006-2009 periods. Business operations will be increased in YIT's current business countries during the next few years. At the end of 2007, the Group employed 24,073 (22,311) people. Of YIT's employees, 48% work in Finland, 36% in the other Nordic countries, 9% in Russia and 7% in Lithuania, Latvia and Estonia. As a result of the sale of the Network Services unit, approximately 1,000 Finnish employees left YIT at the beginning of 2008. (www.yitgroup.com)

4.6 SWOT Analysis

A SWOT analysis identifies factors that may affect desired future outcomes of a company. This model is based on identifying the organization's internal strengths, weaknesses, threats and opportunities of the external environment and identifying the company's distinctive key success factors. (Porter 1985, 119)

4.7 Strengths

YIT has several strengths that give it competitive advantage in its areas of operations. Its position as the market leader in the construction industry in Finland and the Baltic shows that the company has enough resources to venture into new markets. The company's employees are highly qualified to handle the customers' processes and procedures thereby enhancing its reputation. The strategies used by the company have lead to expansion in its operations and change in its business process.

4.8 Weaknesses

Entering the new market can be a great challenge to YIT since apart from their operations in Africa in the 1970s; the company has no previous experience in such a market. The location of the parent company and its new market can also be a weakness since the two countries, Finland and Kenya, are far away from each other they can result logistical problems.

Table 5 A summaries of YIT Group's key figures 2007

Revenue, EUR million	3,284.4
Operating profit, EUR million	258.8
Profit for the financial year, EUR million	175.4
Operating profit margin	7.9%
Return on investment	24.8%
Return on equity	28.3%
Solidity	34.5%
Gearing ratio	75.1%

Earnings per share, EUR	1.36
Equity per share, EUR	5.29
Dividend per share, EUR	0.65

(www.yitgroup.com)

4.9 Opportunities

Kenya is a developing market that presents the company with a big market potential. There is not a reputable competitor within this market and since YIT is already a global company, many consumers will go for its products. The government of Kenya has carried out structural reforms with the aim of attracting foreign direct investments making it easier for companies to venture into the new market without many problems. In addition, the general business environment in the global market is favorable for companies that want to internationalize.

4.10 Threats

In every potential operating environment, there is always opportunity for new entrants and that is not a favorable idea as they are deemed competitors. This means that despite the fact that a market like Kenya's being attractive, other competitors can saturate it easily. There exist other threats that are legal, political and economic in nature. New tax laws, political interference and inflation are a real threat in a country like Kenya.

According to the to the (Global Competitiveness Report 2006 to 2007) Kenya's most problematic factors for doing business are as follows: corruption ranks the highest followed by inadequate supply of infrastructure, lack of access to financing, tax rates, inefficient government bureaucracy crime and theft, inflation, policy instability poor work ethics in national labor force, foreign currency regulation in that order.

In addition the market efficiency factors rank for Kenya compared with 125 other countries are as follows: the prevalence o trade barriers ranks 113, brain drain 113, extent and effect of taxation 107, number of procedures to start business 94, efficiency of legal frame work 93, time required to start a business 89 agricultural

policy costs 75, inflation 106, government debt 52, wastefulness of government spending 113, favoritism in decision of government officials 100, judicial independence 86, property rights 83 and business cost of crime and violence 115. (Global Competitiveness Report 2006 to 2007)

As depicted in table 6 the international operations segments of YIT, there are a number of factors that influence the company's decision to internationalize in certain markets. For the purpose of this research, the company pointed out that economic growth is one of the main factors to initiate operations in the market. Demand for its products, size of the market, improving legislations and saturated existing markets are the other reasons to internationalize. There are other factors that are significant but are usually ignored when the company makes the first steps to operate in a new market; these include closeness of the market, natural and human resources, general attitude, flexible workforce and stable economy. The company's head of International Construction Services, Tuulikki Laakso, points out that due to the company's experience in other transition economies, the following factors as shown in the table below are considered before entering a market.

Table 6 Factors considered by YIT during Internationalization

Motive	Fits with Theory	Importance
Economic Growth	Yes	+++
Demand	Yes	+++
Closeness	No	-
Size of the market	Yes	++
Natural and human resources	No	-
Stable Economy	No	-
Communication improvements	No	-
Improving legislations	Yes	-
General attitude	No	-
Flexible workforce	No	-
Saturated existing markets	Yes	++

+++Highly important motive

++Important motive

-Not a motive

(www.yitgroup.com)

5 Introducing Kenya

This section is an analysis of the target market Kenya. It begins with an introduction of Kenya and its location, and an overview of Kenya's economic outlook. The LE PEST (Management methods, politic, Economic, Social, Technology models and theory) model was applied because it helped understand the characteristics of the macro and micro business environment of Kenya

The Republic of Kenya is a country in Eastern Africa. It is bordered by Ethiopia to the North, Somalia to the east, Tanzania to the south, Uganda to the west, and Sudan to the northwest. The Indian Ocean is located along the southeast border as is illustrated on figure 6.

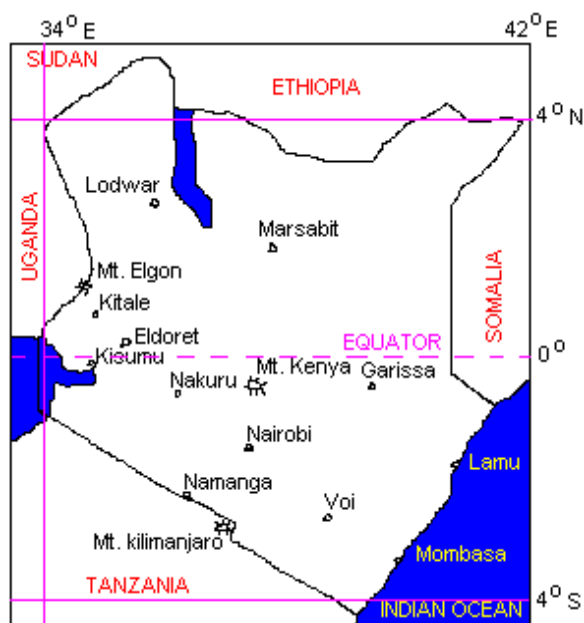


Figure 6 Map of Kenya (www.worldatlas.com)

The country is named after Mount Kenya, a very significant landmark. Kenya got its independence from the British colonial rule on December 1963. Its population is

among the most diverse in Africa. It offers an investor a large market and has a growing economy that is attractive to the international marketer. The country's favorable economic growth and location has made it to be the regional hub for trade and finance in East Africa.

5.1 Kenyan Economy

The government of Kenya working in partnership with local and international organizations, has promoted rapid economic growth through public investment, encouragement of smallholder agricultural production, and incentives for foreign industrial investment. Agriculture is the mainstay of Kenya's economy, contributing over one third of the Gross Domestic Product (GDP). (www.cia.gov)

The Kenyan government has taken measures to liberalize the economy through major reforms. The steps have included the removal of import licensing, price controls, foreign exchange controls, fiscal and monetary restraints and reduction of the public sector through privatizing publicly owned companies and downsizing the civil service. These reforms have resulted to an improved economic performance. For example, in 2006, exports totaled 3.1 billion United States dollars with the main products being tea, coffee, horticultural products, petroleum products, cement, pyrethrum, soda ash, sisal and fluorspar. The major markets includes: Uganda, Tanzania, United Kingdom, Germany, Netherlands, Ethiopia, Rwanda, Egypt, South Africa, and United States. (www.cia.gov)

Imports totaled 7.2 billion U.S dollars with the main products being machinery, vehicles, crude petroleum, iron and steel, resins and plastic materials, refined petroleum products, pharmaceuticals, paper and paper products, fertilizers and wheat. The major suppliers are the United Kingdom, Japan, South Africa, Germany, United Arab Emirates, Italy, India, France, United States, and Saudi Arabia. (www.cia.gov)

Kenya's main industries are food and beverages processing, manufacture of petroleum products, textiles and fibers, garments, tobacco, processed fruits, cement, paper, pyrethrum products, engineering, wood products, pharmaceuticals, basic chemicals, sugar, rubber, and plastics products.

Tourism is now Kenya's largest foreign exchange earning sector, followed by flowers, tea and coffee. In 2006 tourism generated \$803 million, up from \$699 million the previous year. Consequently, there is need to develop the country's infrastructure resulting in a lot of opportunities in various sectors of the economy.

African countries provide Kenya's largest export market followed by the European Union. The country benefits significantly from the Africa Growth and Opportunity Act (AGOA)-meaning that an investor in the country has access to a number of incentives that are offered in such markets. (www.investmentkenya.com)

5.2 Political Situation

Kenya is a democratic country with many political parties which represent the ethno-cultural diversity of the country. As a result, the country has lately been considered a model for Africa's democracy. The country's ethnic groups are divided into three broad linguistic groups which consist of the Bantu, Nilotics and the Cushitic. (www.cia.gov)

The government of Kenya has previously had to finance its own budget as a result of the suspension of aid by the IMF (International Monetary Fund)-a step taken due to the government's failure to maintain reforms and eliminate corruption. This action in addition to a drought from 1999 to 2000 resulted in the country's Growth Domestic Product contracting by 0.2% in 2000. Resumption of aid has made the situation ease again and there is growth in the different sectors of the economy. However, weak commodity prices, corruption and low investment still are challenges facing the government and the country at large. (www.cia.gov)

5.3 Socio- Cultural Environment

The socio-cultural environment of Kenya can be divided into the following; education, adequate standard of living, good health facilities and rights to cultural activities. Eighty five per cent of the Kenyan people are literate since the government gives considerable priority to this sector. Kenya's economy is heavily dependent on agriculture where over 75% of Kenyans make their living from farming producing both for local consumption and for export. Though its population is high in

proportion to its area, Kenya is counted among Africa countries whose food production has kept pace with its population growth.

5.4 Demographic Features

Kenya has a diverse population that includes most major ethnic and linguistic groups of Africa. These range from traditional pastoralists, rural farmers, Muslims, Christians, and urban cities' residents contribute to the cosmopolitan culture.

The standard of living in major cities, which was once relatively high compared to most of Sub-Saharan Africa, has been declining in recent years. (www.cia.gov)

The population of Kenya according to a July 2008 estimate is 37,953,840, taking into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality and death rates, lower population and growth rates, and changes in the distribution of population by age and sex than would otherwise be expected (www.cia.gov)

The age structure of Kenya's population is as follows: children from 0-14 years make up 42.6%, from the age of 15-64 years make up 55.1% of the population, 65 years and over make up the rest of the 2.3%. The population growth rate is 2.57%, with a birth rate of 39.72 births/1,000 population. (www.cia.gov)

5.5 Technological Outlook

Research and development in recent years has been a priority for the Kenyan Government, since like most developing nations, Kenya was behind in this sector. However there are some important developments in that respect for the government has been signing agreements with countries like China for technological developments. (www.cia.gov)

5.6 Legal situation

The Kenyan legal system is organized hierarchically. First there is the High Court, which is competent for civil, criminal and constitutional matters. It is made up of a president and 11 judges, followed by the appeal Court, and finally, many district and provincial courts. There is also European based law. Kenyan justice recognizes

Islamic law and local customs in the settlement of personal litigation. In March 2000, the government announced a set of institutional reforms to adapt the laws to Kenyan reality. This reform has been affecting the penal code, legislation regarding children and intellectual property rights. (www.etat.sciencespobordeaux.fr)

5.7 Investment Climate

A favorable investment climate is important for the investor and has a major influence on investments in a particular market. It encourages businesses to improve efficiency and productivity in order to increase revenues and capital available for investment. It also gives investors confidence in the market and encourages them to invest more capital.

The Kenyan Government plays an important role in the business sector. To begin with, there are a number of economic measures that have been implemented to improve the country's economy. The pursuit of structural and macroeconomic reforms as well as greater transparency and predictability of existing legislation has helped Kenya's transition to an outward-oriented economy and improve its ability to attract the needed foreign investment.

Kenya is one of the few countries where a single tariff structure is applied. The main form of tariff is ad valorem tariff (a set percentage of the value of the good that is being imported). In 2004, East African Community was founded between Uganda, Tanzania, and Kenya in the form of a Customs Union, which imposes a Common External Tariff (CET) on goods from countries outside the Community, and no levies or very low tariff within the Community. (www.wto.org)

As of January 1st, 2005, goods imported from outside the Community are subject to a three band tariff, in which 0 percent is on raw materials and capital goods, 10 percent on semi-processed and intermediate goods, and 25 percent on finished goods. The Community also imposes a tariff rate of 35 percent or 55 percent on wheat, sugar, tobacco and cement. Apart from import duties, the Kenya government also imposes value-added tax on imports, and excise on imported products like wine, bottled water, soft drinks and tobacco. According to the Trade Licensing Act, a

trade license is required by Kenyan Ministry of Trade and Industry to do import business in Kenya. (www.wto.org)

The East Africa Customs Management Act provides for a drawback of import duty on materials and goods imported for the manufacture of goods to be exported, transferred to a free port or transferred to an export processing zone. The importer needs to obtain authorization from the Commissioner of Customs before applying for a drawback. The Commissioner determines the duty drawback coefficient applicable based on the claim for drawback which should be presented within a period of 12 months from the date of exportation of the goods. (www.wto.org)

As in the case of import business, the Trade Licensing Act stipulates that a trade license is required by Kenyan Ministry of Trade and Industry to do export business in Kenya. The Ministry of Finance is responsible for changing the rates of export duties. According to its economic recovery strategy for wealth and employment creation 2003-2007, the Government of Kenya has adopted various incentives to encourage export, such as reducing or remitting excise and providing for export drawback. Besides, a Tax Remission for Export Office (TREO) Scheme has been implemented. According to the TREO Scheme, a local manufacturer can apply for a remission of import duty and VAT on raw materials used in the manufacture of goods for export. (www.wto.org)

Pursuant to the Investment Promotion Act, foreign investors who intend to invest in Kenya shall apply to the Kenya Investment Authority for an investment certificate, which is only granted if the amount to be invested by a foreign investor is at least US\$500,000 or the equivalent in any currency, and the project to be invested in shall be legal and beneficial for Kenya. As a matter of fact, a foreign investor can invest in any economic sector in Kenya free of any product limit. The formal limits on foreign ownership only exist in telecommunications and insurance, in which foreign ownership of a business is limited by policy to 70 percent and 77 percent respectively. Companies listed on the Nairobi Stock Exchange are required to have at least 25 percent of national ownership. (www.wto.org)

A floating exchange rate system is adopted in Kenya and there are no exchange controls. A foreign investor is free to repatriate his capital and after-tax profit. The

Foreign Investment Protection Act specifies that the Kenyan government ensures the safety of foreign investment and will only expropriate the foreign investment for national use under special conditions with full compensation to the investor. (www.ke.undp.org)

Kenya imposes a series of taxes and tariffs on imported products. Excise taxes are levied on goods produced within the country. These taxes have an impact on the prices hence the level of domestic demand. There are other taxes and tariffs imposed such as the common external tariff, the temporary surcharge, the value added tax and other service taxes. (www.ke.undp.org)

5.8 Competent Authorities

The Kenya Ministry of Trade and Industry is the major competent authority for the administration of international trade and investment. Its main functions include: researching and developing Kenyan industries, making and implementing trade and industrial development policies, promoting export and attracting foreign investment, handling trade- and investment-related issues such as intellectual property rights (IPR), standards on goods, and issuing trade licenses. The Ministry consists of the following departments: the Department of External Trade (DET), the Export Promotion Council, Export Processing Zones Authority, Kenya Bureau of Standards, and the Regional Divisions of DET. (www.ke.undp.org)

The Department of External Trade is responsible for the supervision of foreign trade policies, the promotion of bilateral and regional trade relations, the promotion of foreign trade and the introduction of foreign investment. The Export Promotion Council is mainly responsible for facilitating the business of exporters or export products manufacturers, promoting the export of goods and services, and coordinating all the export-related activities. Export Processing Zones Authority mainly provides convenience and services for enterprises in the zones, and issues the permit to establish an enterprise in the export processing zones as well as the permit to establish an export processing zone. (www.ke.undp.org)

Main functions of the Kenya Bureau of Standards include scientifically formulating the national technical standards and disseminating information relating to standards

and technology regulations. The Regional Divisions of DET are responsible for issuing trade licenses required for import and export. The primary function of the Customs Service Department is to collect tariffs, excise, and VAT on imports. Additionally, the department is also responsible for collecting trade statistics and preventing illegal entry and exit of prohibited goods such as drugs and weapons (<http://www.ke.undp.org>).

The basic functions of the Kenya Investment Authority include providing one-stop service information and assistance to investors, issuing investment certificates or required licenses for investors, and promoting foreign investments in Kenya. The functions of the National Investment Council include formulating investment-promoting guidelines for the government, investigating into the possible factors influencing Kenya's economic development and foreign investment, and promoting the communication between government and enterprises in terms of implementing national investment policies (WTO, 2007)

5.9 Promotions for Foreign Direct Investment

The government of Kenya through its policies for the promotion of Foreign Direct Investment has been participating and organizing conferences and workshops in order to enhance Foreign Direct Investment (FDI). Before the year 2004 it required an investor a total of 21 business licenses and registrations to be able to do business in Kenya. Since the new promotion Investment bill was implemented in 2004 the process has been highly reduced by reducing all the unnecessary bureaucratic processes in an effort to make investment an easy process. The introduction of the Kenya Investment Authority (KIA) marked the centralization of investment procedures within the government. Kenya is now among the easiest countries to invest in, in regards to establishment of companies by foreign investors. (www.ke.undp.org)

5.10 Market Opportunities

Kenya is the logistical hub for the East African region. Through its strategic geographical location, Kenya has emerged as a significant player in regional trade, investment, infrastructure development and general economic growth.

Despite many of its social and economical problems, Kenya can be described as one of Africa's post-colonial success stories: relatively prosperous, comparatively stable and host to many international organizations. (www.investmentkenya.com)

Kenya continues to maintain a stable government and a free-market economy with a vibrant private sector, and, through the Greater Horn of Africa Initiative, the country is in a strong position to maintain its significant role in regional trade, investment, infrastructure development and general economic co-operation for the region. During the last two years the country has made substantial progress in stabilizing and liberalizing its economy. Inflation has been brought under control and continues to decline. The budget deficit has been reduced and interest rates have come down. The liberalization of import controls and foreign exchange rates have been major steps towards removal of trade barriers. (www.investmentkenya.com)

5.10.1 Political stability

Kenya is a stable country and it has continuously enjoyed stability over the last three decades. The only political upheavals that shook Kenya were in the advent of independence agitation with pressure groups like the Mau Mau that stood for independence from the British. (www.investmentkenya.com)

According to the prime minister of Kenya Raila Odinga, the major assets of Kenya are peace, stability and security. It is this assets that will attract foreign investors to invest in Kenya (www.nation.co.ke). In other words, Kenya is a democratic country and there is considerable level of freedom of association and it is worth mentioning that these freedom guarantee foreign investments in the country. It is this positive business environment that will attract foreign investors like YIT OYJ to do business in Kenya.

5.10.2 Strategic Location

Kenya is the leading economy in East Africa. An international investor like YIT can benefit from its strategic location and well developed business infrastructure. In addition over the years the Kenyan market has been a natural choice for investors and many international firms have made it their regional center. Investing in Kenya now also provides access to the larger regional market of the East African

Community, (EAC) which was formed by its three partner states (Kenya, Tanzania and Uganda) in 2000 and which has 93 million consumers. The EAC customs union came into effect in January 2005 and the EAC is expected to form a political federation by 2013. In addition, as a member of the Common Market for Eastern and Southern Africa (COMESA), Kenya gives investors access to 385 million consumers. (www.investmentkenya.com)

Kenya, and specifically Nairobi, is a major transport center for Eastern Africa. The country's main airport (the Jomo Kenyatta International Airport) is the center of East African air transport, and it has connections to many European and US cities. Kenya's convenient time zone (GMT +3), ensures that it positions itself as a leading destination for call center, business process outsourcing, software development and other related activities. (www.investmentkenya.com)

Mombasa, the main seaport of Kenya, has served as a major distribution center for the lucrative East African market providing connections to landlocked neighboring nations. The port of Mombasa is linked to the world's major ports with over 210 sailing per week to ports in Europe, North and South America, Asia, Middle East, Australia and rest of Africa. The Trans Africa highway connects all the East African countries. The road transport network is extensive and fully developed with roads connecting to all major commercial cities. The railway system is single track, connecting Nairobi, Mombasa and Dar es Salaam. (www.investmentkenya.com)

5.10.3 Educated and Qualified Workforce

Kenya has made a lot of progress in the education department. The government has introduced compulsory free primary education to its citizens and this has brought benefits to the country. The country prides itself in its large group of professional workers, trained both within the country and in institutions in Europe, North America, Australia and other parts of the world. For years, it has produced well-educated professionals and highly trained in various fields. The country holds the distinction of having the highest number of university and college educated English speaking professionals in East Africa.

The country has a well developed education system, with the primary language of instruction being English. There exists a large group of English speaking workers,

trained in various professions. There are over 11 universities, 4 polytechnics, 41 technical training institutions, and several management training institutions in the country. (www.investmentkenya.com)

Information Technology degrees are offered by most of Kenyan universities, while diploma courses are also offered by both the public and private sector technical and management training institutions. Kenya therefore has skilled personnel in the IT profession, including computer programmers, software developers, hardware maintenance engineers, systems analysts, and IT consultants. The Kenya Government has also started training its own staff on IT related subjects and proposes mainstreaming of IT training within all schools, colleges and universities. (www.investmentkenya.com)

5.10.4 Licensing and Regulatory Reforms

As mentioned in the previous sections the government is formulating laws and policies that favor investments. For example, a new investment law superseding the investment promotion centre act of 2006 which it repealed was passed by parliament and assented by the president in December 2004. It was named the Investment Promotion Act 2004 and came into force in the Kenya gazette supplement no. 87 of January 2005. The purpose of the act is to "Promote and facilitate investment by assisting investors in obtaining the licenses necessary to invest and providing other assistance and incentives". (www.investmentkenya.com)

The Kenyan Government recently set up a task force for public consultation on business licensing reforms to seek public comments on the 1,300 licenses affecting business operations in Kenya. The growth and competitiveness of the private sector is negatively affected by the complicated business licenses. This has negatively affected economic growth and the creation of job opportunities in Kenya. Consequently, the Government decided to use the regulatory board so as to rapidly eliminate or simplify those licenses which are illegal, unnecessary or business unfriendly. The licenses which are necessary from a health, environment or safety perspective will be simplified if they are business unfriendly. (www.investmentkenya.com)

5.10.5 Well Established Local and Foreign Private Sector

The presence of a well established local and foreign private sector will offer YIT the opportunity to work with renowned partners. Kenya has a very substantial private sector, including a significant number of foreign investors and is considered as one of the most resilient in the world. The country has always been a market economy, in which resource allocations, prices and other marketing decisions are primarily determined by the free market.

The import substitution policies of the 1960s and 1970s led to considerable diversification of the economy, the domestic private sector has been concentrating in certain kinds of manufacturing which are mainly food-related for both the domestic and the regional market. Foreign direct investment has recently played key roles in the horticulture industry for export to the European Union and service areas like: transport, tourism and telecommunication. (www.investmentkenya.com)

5.10.6 Preferential Market Access

In the modern world, a number of trade organizations and the emergence of regional trade integration have simplified international business. YIT entry to the market will be beneficial since Kenya is signatory to a number of multilateral and bilateral trade agreements as part of its trade policy. It is a member of the World Trade Organization (WTO) making its products accessible to more than 90% of world markets at Most Favored Nation (MFN) treatment. In addition, the country is member to several trade arrangements and beneficiary to trade-enhancing schemes like the African Growth and Opportunity Act (AGOA), EU Trade Agreement and the Common Market of Eastern and Southern Africa (COMESA). (www.investmentkenya.com)

5.10.7 Fully Liberalized Economy

One of the reasons why an international investor should consider Kenya as an investment destination is the fully liberalized economy. Kenya has now fully liberalized its economy by removing all obstacles that previously affected the free flow of trade and foreign private investment. Among them were exchange controls, import and export licensing, as well as restrictions on remittances of profits and dividends, all of

which no longer exist. These reforms have been carefully undertaken by the Kenyan government in order to create the necessary environment to attract foreign investment. (www.investmentkenya.com)

In summary, the Kenyan Government working with other stakeholders, has ensured the country's competitiveness by liberalizing the exchange controls, opening up of the capital markets to foreign participation, remission of duty and Value Added Tax (VAT) and by being a signatory of a range of tax treaties , Investment Protection Agreements and bilateral investment treaties.

5.10.8 Kenya: More than Just Business

All the emphasis should not only be put on investment environments and performance indicators. Kenya offers many advantages that make it a good choice for settlement and investment. There is the spectacular and diverse nature with landscapes ranging from mountains to beautiful beaches. (www.investmentkenya.com)

5.11 Threats

The following section discusses the threats that a potential investor faces when establishing a business in Kenya.

5.11.1 Capital and Investment Barriers

Establishing a business in Kenya requires good laws and political stability that will encourage foreign investors to trust on the law and the government. In the absence of the above mentioned, establishing a business in Kenya would be under threat. The establishment of the new Investment Promotion Bill of 2004 and the Kenyan Investment Authority order (KIA) were steps taken to safeguard trust and give confidence for foreign investors to establish businesses in Kenya thereby minimizing threats. (www.investmentkenya.com)

In Kenya today there is a political threat in establishing a business. This was caused by the general elections that took place in Dec 2007. Observers viewed the crisis as a potential threat to foreign investors who are planning to start businesses in Kenya. Due to the crisis, foreign investors, local operators, civil societies, the US, the

European Union, the government and the opposition in Kenya have been seeking solutions to the crisis to establish political stability that can encourage investors to view Kenya as a favorable environment for business. (www.investmentkenya.com)

5.11.2 Inflation Trends

Kenya has not experienced any major inflation since the inflation from 1974 to 1996. According to the country's office of statistics, the overall inflation rate averaged 10.50% in 2007, a rise from 1.90% in 2003 as shown in the table below. Its attempt to show the inflation rate and percentage changes between the periods 2003 to 2007. The Central Bank of Kenya strives to keep inflation low by ensuring a stable exchange rate and by following a "prudent monetary policy" that will ultimately give results. Analysts expected inflation in January 2008 to climb due to increases in fuel prices and food shortages caused by the post-election crisis. (www.africa.reuters.com)

Table 7 Inflation Trend from 2003 to 2007

Year	Inflation rate (consumer prices)	Rank	Percentage Change	Date of Information
2003	1.90%	166		2002 est.
2004	9.80%	39	415.79%	2003 est.
2005	9.00%	183	-8.16%	2004 est.
2006	10.30%	193	14.44%	2005 est.
2007	10.50%	191	1.94%	2006 est.

(www.africa.reuters.com)

5.12 Identifying and Assessing Risks in Kenya

Risk assessment is a follow up of daily activities in a country by an investor who is interested in carrying out businesses in a country. For Kenya not to be considered a high risk zone the conditions on the field must favor investors.

By identifying risks an investor would carry a visibility study on the ground to see whether the supposed country they intend to invest in must be favorable for them.

Kenya posted strong growth for the fourth straight year in 2007. Good weather conditions benefited agriculture as well as the forestry and fishing sectors. On a more fundamental level, the base of economic growth broadened due to the development of tourism and the increase of trade within the East Africa Community. Those trends should continue. (<http://www.coface-usa.com>)

The economy has, however, been giving signs of declining due to limitations in transport and energy infrastructure. Despite the central bank's restrictive monetary policy, inflation should remain above the five percent target. The good economic conditions together with cautious fiscal policy have only contributed modestly to the consolidation of public finances with privatization proceeds and tax revenues less than expected while debt service and investment spending undermined the budget.

The fiscal deficit should moreover grow larger in 2008 due to the spending increase. The strong growth has resulted in a widening of the current account deficit attributable to rising capital goods imports and the increasing cost of oil. The country's external financing needs nonetheless remain largely covered by incoming foreign direct investment. The country has sufficient and growing foreign exchange reserves. (<http://www.coface-usa.com>)

Kenya was included among the ten most reform-minded countries in Africa in the year 2007. However the anti-corrupt campaign is still inadequate. (<http://www.coface-usa.com>)

5.12.1 Business Climate Rating Definition

According to the World Economic Forum's Global Competitiveness Report for 2006-07, the three most problematic factors for doing business are corruption, inadequate supply of infrastructure, and access to financing.

The Enterprise Survey also ranked corruption and access to financing as the top two constraints, followed by crime. Kenya was however ranked by Doing Business as one of the top 10 reformers this year, with improvements in the following indicators: Starting a Business, Dealing with Licenses, Registering Property, and Getting Credit. (www.tradingsafely.com)

5.12.2 Assets

Kenya's relatively diversified economy has benefited from the growth of the construction and telecommunications sectors. An emerging middle class has underpinned consumption and fostered greater diversification of production. The regional integration under way within the East Africa Community has enhanced Kenya's role in the region and its attractiveness to investors. The inflow of foreign direct investment since 2005 has underpinned an increase in medium-term potential. (www.cofaceusa.com)

5.12.3 Weaknesses

Agriculture remains a crucial sector of the economy, generating 25 per cent of GDP and providing a livelihood for the majority 85 per cent of the population whose incomes are thus vulnerable to weather conditions. A shortage of infrastructure and its deteriorated condition have impeded growth with the road network and port facilities still inadequate and electricity production limited. An extensive mobilization of resources will be necessary to stem not only the poverty that afflicted 46 per cent of the population in 2006 but also unemployment and an AIDS pandemic in sharp decline but still affecting six per cent of the population. (www.coface-usa.com)

5.13 Investment Opportunities in Building & Construction

Development of infrastructure is one of the key methods of achieving economic recovery of the country. Consequently, the government has identified this sector as a priority in Economic Recovery Strategy for Employment and Wealth Creation. In 2007, the building and construction sectors' key economic indicators recorded improved performance. (www.coface-usa.com)

Cement consumption went up by 4.5 per cent from 1, 212.3 thousand tones in 2006 to 1,267.0 thousand tones in 2007 partly due to cement in road construction and maintenance. The index of government expenditure on roads increased from 62.7 in 2006 to 68.5 in 2007. The total estimated cost of new private buildings completed registered an increase of 2.2 per cent from Ksh 1, 395, 6 million in 2006 to 1, 426, 2 million in 2007. The overall construction cost index recorded an increase of 7, 1 per cent in 2007 as compared to 1, 4 per cent in 2006. (www.investmentkenya.com)

There is a great potential in the Kenyan market for a construction company like YIT. The population increase has resulted in demand for construction of residential, commercial and industrial buildings, including low-cost housing. The government also intends to carry out a slum upgrading project and embark on inviting tenders for the construction of urban housing by the public and private sector. These initiatives will provide opportunities for a company like YIT. (www.investmentkenya.com)

In addition, liberalization and privatization are actions taken by the government to ensure competition. Private investors with the necessary skills and competitive advantage therefore can form joint ventures or use any means of entry to operate in the Kenyan market. Generally, investments have increased in different sectors of the Kenyan economy due to the favorable investment climate (www.investmentkenya.com)

6 CONCLUSIONS

Based on the research work and the theoretical background of this research, the answers to the research questions are provided in this final part. The broader findings and thereafter specific conclusions will be drawn for each research question based on the analyzed data. Finally, implications for management, theory and future research will be presented. First, there are a number of motives to enter transition markets that are of major importance.

In order to clarify the connection between the different motives in the findings and conclusions, the motives are divided into formal and informal motives. Of these, formal motives are more explicit than informal motives, which alone cannot constitute as motives.

6.1 Findings

The most important formal motive is the developing country Kenya's rapid economic growth, which leads to an increased demand for consumer goods and services in all sectors. Naturally, a stable economy and legislations that work in favor of the foreign company's operations in the country are conditions that lay a foundation for economic growth and should therefore also be perceived as informal motives.

Further, the size of the country's market is another important informal motive, since a large country with many inhabitants implies an enormous market potential for future economic growth.

An additional formal motive is saturated existing markets. This is a motive for the reason that the company's existing markets are fully penetrated within some areas of products and services. For this reason, the company operating in these markets needs to find new markets in order to be able to further expand their businesses. There are motives that are of less significance. However they are still important when a company has decided to go abroad.

The motives are labeled as informal because they cannot constitute as motives to enter a market on their own, although they as group can be perceived as motives to enter a specific market. Communication improvements is an informal motive of minor importance since it is only simplifying the company's handling of its operations and not affecting most company's core competences. Minor informal motives can be the country has sufficient natural and human resources, general attitude in the country towards foreign operations and flexibility of personnel.

6.2 Analysis

Acquisitions and new establishments are the most likely entry modes to be used by YIT to enter a developing market like Kenya. This is because this economy has reformed its structures and functions in a manner that allows for this mode to be used. The country allows majority foreign ownership of operations. Acquisitions can also be structured as joint ventures. This is when a foreign company creates a joint venture with a local company and later acquires majority ownership of the operations. Alternatively, the joint venture strategy could be the case since the regulatory framework in a country like Kenya is complex and often requires the foreign company to have a local partner.

The local partner provides the foreign company with local knowledge and cultural understanding and helps make business function properly. It can also be used as an entry mode since the local government might be hesitant towards one hundred per cent ownership by foreign companies in the country. Mergers can work when entering a market like Kenya. However, a suitable partner might be complicated to find. This is probably due to the fact that companies in transition countries conduct

their business in different manners compared to companies in western countries due to cultural differences and that this can complicate the company's operations

To conclude the research, these are the foreign market entry strategies used by companies entering transition markets: Joint Venture is the preferred entry mode strategy as it provides the foreign company with a local partner and thereby local knowledge. Acquisitions are suitable if the acquired companies function in a westernized manner and have local knowledge and contacts. New establishments function best in countries that have developed their system of business. Mergers are not a preferred entry mode because of cultural differences that complicates the company's operations.

The factors influencing the choice of entry mode in transition markets are many. However, there are a number of factors that seem to be more influencing than others. The most important factor in this case is the legal framework and it must be investigated thoroughly since it regulates the mode of entries allowed. The writers believe that the legal framework is connected to the heavy bureaucracy and the local governmental attitudes since the legal framework is built upon these two factors.

The legal framework further relates to the company's required commitment to the market, for the reason that governments can restrict the use of investment entry modes used with strict regulations. Continually, growth of the market is a significant influencing factor since there are a number of other factors related to this. One example is the size of the market since a large market implies an enormous market potential for future economic growth. Further, since size of the market and growth relates to profit, profit desire also has to be a factor to consider when making an entry mode decision.

The investment entry mode in addition provide the company with a high degree of control since a high degree of control is often desired it implies that the desired degree of control is also a factor influencing the entry mode decision. In addition, the capital intensity and costs of the industry have to be considered when selecting the appropriate entry mode. If the starts up costs are high and the industry capital intense, the company might want to consider having full control over its foreign operations through a majority ownership. However, this is a riskier option than the

other types of entry modes. In other words, the risk the company is prepared to take heavily influence the entry mode decision as some entry mode strategies are more costly and risky for the company than others.

These include both political and financial risks. However, often the market potential in a country like Kenya is so large that the company is willing to take the risk. It is also important to consider infrastructure before deciding upon a suitable entry mode. This naturally includes investigating if there are functioning distribution systems. Access to quality material such as raw material, qualified labor and sufficient technology are also important factors of influence in the entry mode decision.

In order to simplify contacts with the government, a local partner is preferable. This should in addition increase the competitiveness since the company will gain local know-how and might increase its credibility among the customers in the country. This will provide the foreign company with information concerning local business practices. Naturally, demographic conditions affect a company's entry mode decision, just as all other general factors, such as the target country's culture and trade balance.

The company is likely to experience a different cultural norm and values in the host country. This will be evident in the work habits and influences even the pricing for the products. Corruption is another problem in Kenya that has to be taken into account. The country ranks poorly in the surveys conducted by Transparency International (a global civil society organization leading the fight against corruption). Consequently setting up the company's operations may be delayed and instances of bribing experienced. Economic problems that are less significant are for example a fluctuating inflation rate and an unpredictable rate of exchange.

The legal framework is also a significant problem since there are at many times no clear rules that apply to all companies. As an example, licenses and permissions are required to be able to function in the market and these can be difficult and time consuming to obtain because of the heavy bureaucracy. The non-westernized business practices can also take in the form of different accounting principles and the fact that businesses are based on personal contact.

The infrastructure is also of low standard and can thereby be a significant problem in the distribution of goods and in other types of transportation and communication. Disruption in the supply of electricity can be a problem.

The problems facing a company entering a developing market like Kenya are described as follows: The culture clash between the local and the foreign market is a significant problem and is related to differing cultural norms and values. The legal framework is a significant problem related to political problems, as there are no clear rules that apply to all companies, non-westernized business practices and heavy bureaucracy. There are problems of low standard of living, corruption and economic problems

6.3 Implications/Recommendations

In this final section the authors will give implications and recommendations to the management of YIT which are based on the findings of this thesis. Further implications will be given to theory for future research within this area of study.

6.4 Implications for Management

When it comes to the different motives to enter transition markets, managers need to have in mind that growth of the market is connected to size of the transition country's market as well. It is also important to be aware of that growth of several transition markets is very rapid during a short period of time, and firms therefore need to enter these markets rapidly in order to get a first mover advantage.

The degree of penetration in each market in comparison to similar markets, give an indication of the current market situation, and of the growth potential of the market. The perceived risk connected to a market entry in transition markets can be higher than when entering a westernized market.

However this research has shown the market opportunities are great and for this reason worth taking a risk. The most appropriate mode of to use when entering transition markets is joint venture, since it decreases the risk. Acquisitions can be used when the acquired company has local knowledge and when the government

allows it. In the future, new establishment and straightforward acquisitions can also be used when the business climate has improved.

No matter what mode of entry is used, managers need to consider local customs and values, which includes non-westernized business practices and heavy bureaucracy. Managers need to know that the legal framework does not treat all firms equally and therefore some competitors can have unjust advantages. All of this favors a joint venture entry mode or a safe acquisition since these two entry modes provide the company with a local partner and local knowledge.

The Kenyan workforce is highly skilled but do not have cross-competences. For this reason, it might be necessary to hire western personnel to the company's operations in transition markets. In addition, the recruitment or transfer of personnel to transition countries might be complicated, since the standard of living is lower than in western countries. This might also force the company to pay higher salaries than in Western countries.

6.5 Implications for Theory

The purpose of this report was to gain a deeper understanding of the mode of entry strategies used when YIT firms plan to enter transition countries. The company YIT OYJ is already established in Russia and the Baltic States and therefore the experience might be similar since these countries are all transition countries.

The study has been exploratory since the authors have gained a deeper understanding of the area of research through gathering information concerning an area the authors had limited knowledge about. The study has also been of a descriptive nature since the authors, through data collection, have been able to describe the motives to enter transition markets, the mode of entry used when entering transition markets, the factors influencing the entry mode strategy decision, and finally the problems facing companies entering transition markets.

The study has also been explanatory to some extent for the reason that the authors have been able to draw conclusions, that is, to answer the research questions. This thesis contribution to theory is based on empirical studies of the investigated case study YIT, and can serve as a base for further research. For the reason that many

transition countries are currently undergoing significant changes in their political, legal and economic environments, these markets are highly interesting to study. However these changes are occurring rapidly, and research therefore has to be performed in a timely fashion in order to be of any use to the companies that want to enter these markets.

6.6 Implications for future Research

This research has provided an insight into the mode of entry strategies used when foreign firms enter transition markets. The Authors found that it would also be useful to perform a descriptive analysis of how western companies have overcome problems encountered when entering transition markets. The research is interesting since it connects to this research concerning the problems facing firms when entering transition markets.

This can be conducted through a multiple case study of western companies operating in transition markets. Another interesting field of study is to compare different transition markets as potential target countries. This study could be of help to companies in the process of selecting an appropriate target country, and is best performed through a single case study of a firm that has entered several markets of this kind. Whether the Kenyan business practices are turning into western business practices or not, is also interesting to study.

The reason for this is that the country is currently undergoing significant changes that affect the way business is conducted. The study is best performed by a multiple case study of firms that have been functioning in Kenya and or transition markets during a long period of time. The authors noted that it is also possible to study the differences between the Finnish legal framework and the legal framework in Kenya or any transition economy.

Connected to this research area is the study of the differences of the legal framework between two transition economies. This study is best conducted through surveys concerning the experience of the legal framework in the two selected countries. The use of the Internet is growing significantly and therefore it is becoming more likely that companies enter countries through the electronic entry mode strategy. Currently existing theories concerning the area are limited

therefore any research on this subject would be a useful contribution to theory. A study like this is best performed through a multiple case study of companies entering countries through the electronic entry mode strategy.

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APPENDICES

Interview with Tuulikki Laakso YIT Construction Ltd International Construction Services

In making a decision on market entry, therefore, the most fundamental questions that YIT OYJ must answer are:

Since YIT is already in the Baltics does it have any interest in Africa, or do they have any operations there?

How can the entry mode strategies used be described?

How can the factors influencing the entry strategy be described?

What strategies has YIT used previously to enter into new markets?

What are the prospects of a country like Kenya for YIT?

What level of control over their international business they require?

What level of risk are they willing to take?

What cost can they afford to bear?

Company background and organizational facts

The respondent's name and title

Annual turnover of the company

Motives for Entering Transition Countries

The company's motives to enter a new market

- Economic Growth
- Demand
- Closeness
- Size of the market
- Flexible workforce

- General Attitude

The Mode of Entry Strategy Decision

The mode of entry used to enter transition Countries

Investment Entry Modes

- New Establishment
- Joint Ventures

Factors Influencing Entry Strategy Decision

Access to quality material

Local Government Attitudes

Bureaucracy

Local Infrastructure

Desired degree of Control

Level of Technology Needed

Costs

Legal Framework

Problems YIT has faced entering other transition countries

Economical, Political and Legal Problems

Corruption

Bureaucracy

Bottlenecks in Production and Distribution

Barter Trade

Non- westernized Business Practices

Quality of Job Applicants

Social Legacy

Infrastructure

No Products or Resources

Communications

Environmental Issues

Living Conditions

Cultural Norms and Values