TAMPERE UNIVERSITY OF TECHNOLOGY

Department of Industrial Engineering and Management

OGUJI NNAMDI

Finnish Small and Medium Size Enterprises in Nigeria – Factors Influencing lack of Foreign Direct Investments

Master's Thesis

Professor Olavi Uusitalo has been Approved as the Examiner at the Meeting of the Department Council on June 16th 2010

ABSTRACT

TAMPERE UNIVERSITY OF TECHNOLOGY
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OGUJI NNAMDI: Finnish Small and Medium Size Manufacturing Firms into Nigeria- Reasons for Lack of FDIs
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Recently, Finnish firms through government delegations to Nigerian have become more interested in investing in the Nigerian market. There are already quiet a number of Finnish SMEs exporting in the Nigerian market. Within these SMEs already in the Nigerian market, none presently have FDIs as there entry mode choice. Thus, the main goal of this study is to discuss the factors why Finnish SMEs in the Nigerian market do not have FDIs as their entry mode choice.

First, the thesis examines the determinants of FDI (utilising the PESTL framework) in the Nigerian market as well as in the Chinese market within 1980-2000 and 2001-2010. This made it possible to correlate the determinants of FDIs within these periods and the time of entry of Finnish SMEs into Nigeria and the Chinese market. Thus, it provided a means to understand what was in place in the Chinese market why Finnish SMEs choose FDI and choose exporting for the Nigerian market. Second, the pattern of entry of Finnish SMEs was studied to understand the strategic process put in place internally in these firms for making decisions on entry mode choice. Third the study explored a host of external factors inhibiting entry mode choice such as perceived cultural distance, general environmental challenges and industry specific factors. Fourth, the study also examined a host of internal factors to the firms inhibiting entry mode choice such as degree of relevant international experience, orientation of business networks, firm size and nature of product offerings. This study was undertaken through extensive literature review on internationalisation and entry modes.

The reasons for lack of FDIs in the Nigerian market among this Finnish SME were as follows: The FDI determinants in the Nigerian market at the time of entry of these firms were not adequate for their firms to opt for FDI and are still not adequate at the moment. The firm that choose FDIs in the Chinese market did that because the FDIs determinants were adequate to necessitate FDI entry mode choice. The result of the binary logistical regression analysis shows significantly that the reasons for lack of FDI in the Nigerian market are: (1) Firm Size, (2) Perceived cultural distance (3) Industry growth potential not adequate to attract FDIs (4) Business network not oriented towards the Nigerian market or West African in general (5) Insufficient relevant international experience needed for FDIs in the Nigerian market and Finally (6) high environmental uncertainty in the Nigerian market.

PREFACE

This thesis has been made for the department of Industrial Management of Tampere University of Technology.

The paper was born in contribution to knowledge assets needed for preliminary knowledge about the Nigerian Market geared towards establishing a project foundation of networks of Finnish Universities that will provide services to firms seeking to internationalise into the African markets. Thus, creating opportunities for Nigerian Students to be involve in real business cases as a project, thesis, or full employment.

My regards go to my supervisor Professor Olavi Uusitalo for unalloyed gesture, patience and flexibility when supervising this paper. I thank Mr. Jouni Lyly-Yrjänäinen (PhD) for his academic writing tutelage on one hand, his personal counsel and advices through out my study period in Tampere University of Technology.

My final and warm regards to my beloved wife **Cindy Oguji** for assisting me in all endeavours of life, morally, and support through out this research studies.

Oguji Nnamdi

Tampere, December 2009

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1 INTRODUCTION

The year 2009 saw an increasing focus of Finnish government towards investment in the Nigerian economy which brought about a bilateral business visits between both governments geared towards increasing bilateral ties. Finpro, an organisation that provides internationalisation services for Finnish SMEs, makes a strategic decision to establish an office in Nigeria to provide services for Finnish SMEs that wants to internationalise into the West African Market. This thesis is as a result of this interest. In this chapter, the background of the study will be presented, followed by a problem discussion, from this, the purpose and research questions will emerge.

1.1 Background

Finland set up its embassy in Beijing in 1952, Finpro, at same time also established the Finland Trade Centre offering business support to Finnish companies since then. Nearly three hundred Finnish firms have already invested in China and a good percentage of these numbers are SMEs. The entry modes of Finnish SMEs entering China span across all mode of entry such as exporting, licensing, project business, subcontracting, joint ventures and foreign direct investments. Yet more Finnish SMEs are continuously showing enthusiasm and interest to enter the Chinese market despite the turbulent nature of the Chinese market. There has also been a good number of business supports from European Union, Finnish government and private services assisting Finnish SMEs to internationalise their operations into China. Along same pattern are an increasing number of R&D projects, research literature across Finnish universities dealing with business activities and internationalisation of Finnish SMEs into China. All these factors including the increasing number of exports and imports from China are increasing SMEs experience in doing business in China. This is also gradually reducing the psychic distance between Finnish market and the Chinese market.

Presently, the focus of Finpro and Finnish Government is to increase awareness and improve capabilities of Finnish firms in doing business in Africa with a project office in Nigeria indicating the importance of the Nigerian market. The Nigerian market is strategic for Finnish firms. For example Abloy sets for assembly plant in Nigeria in 2010, Wartsila already has an ongoing project business and Finnish companies in the areas of renewable energy, agriculture, oil and gas and machinery are interested in the Nigerian economy and have already expressed their intention to invest (Koski, 2009). Despite this equity investment drive by Finnish SMEs to enter into Nigerian Market, Finnish SMEs presently have no Greenfield investment, licensing, subcontracting, franchising and Joint ventures in Nigeria. Figure 1 shows the different entry mode of Finnish SMEs in China and in West African Market using Hamill 2004 model on risk of entry modes. The figure shows that the major entry mode of Finnish SMEs into the

West African Market has been mainly exporting and few SMEs on project business. Finnish SMEs in China has relatively all forms of mode of market entry in the Chinese market. On one hand, (government, university and private) funded research and developmental activities dealing with the Nigerian markets is nearly scanty compared to the Chinese market.

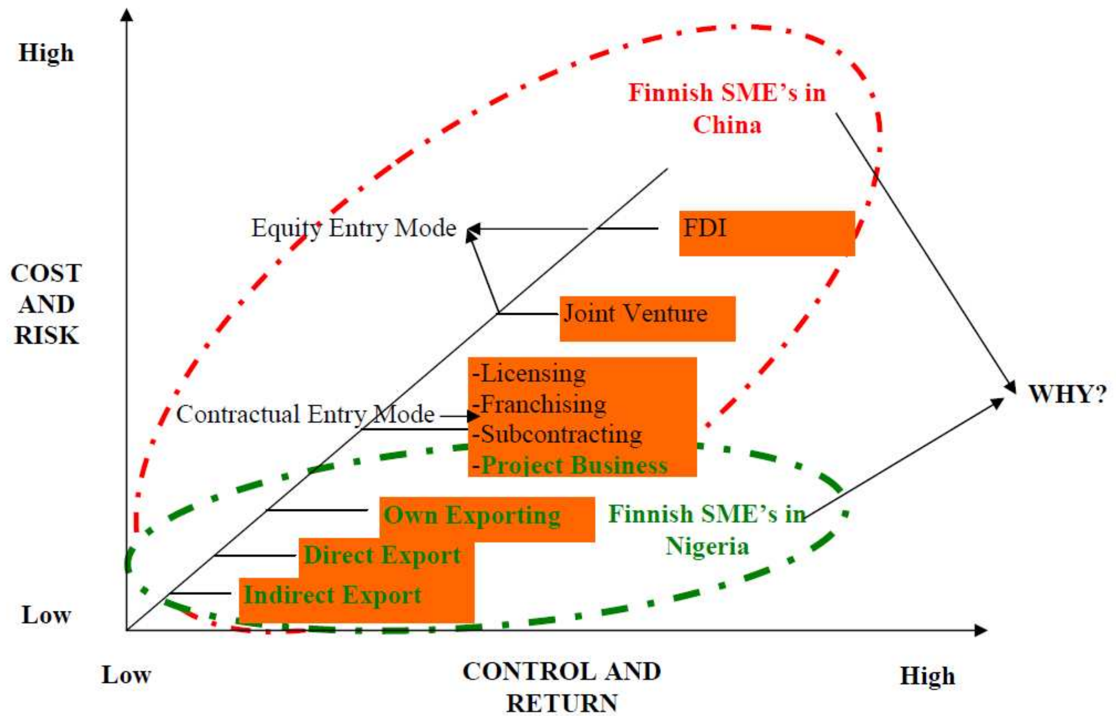


Figure 1. Finnish SMEs in China and West African Countries: Relationship of control, return, cost & risk of entry modes

On the other hand, even though it seems advantageous to Finnish SMEs that Finpro is making a strategic entry into the Nigerian market; the fundamental issue is that the motivation for Finnish SMEs to enter into the Nigerian market may not be met. These motivational factors arises as a result of target country specific factors referring to psychic distance between Finland and Nigerian market, cultural distance, country risks, industry specific opportunities and internal factors such as firm international experience and home country government supports. These factors may have resulted in the slow pace of entry and nonequity mode choice of entry of Finnish SMEs into Nigerian Markets. Thus, despite the increasing bilateral ties between Finland and Nigeria and strategic entry of Finpro into Nigeria, there is still little or no research explaining the slow pace of Finnish firms into Nigerian Market and how these challenges can be turned into opportunities.

1.2 Problem Discussion

On one hand, it is obvious that one of the preconditions for market entry into foreign markets must be that the foreign country must be attractive. That is to say that, a common motive for firms to internationalise is based on the level of attractiveness of the foreign market, referring to the market size, demand conditions, industry structure and competitive dynamics etc. However, while a foreign market industry is attractive, home country government business incentives and programs motivate firms to internationalise, especially, SMEs considering their resource constraint and size. On the other hand, even though, the attractiveness of a foreign country industry is one of the first preconditions for internationalising into foreign markets, the foreign country characteristics may to a greater extent hinder equity investment (entry mode) choice of firms. The foreign country characteristics include among others psychic distance, cultural distance, and country risks. Furthermore, a firm's degree of internationalisation and experience also gives a firm more strategic advantage in exploring the challenges of the foreign market and deciding which entry mode decisions will yield better performance for the organisation.

First, cultural distance is the extent to which the shared norms and values in one country differ from those of other countries (Kogut & Singh, 1988). Cultural distance is one of the main challenges that influence the choice of entry mode for firms entering into foreign market (Drogendijk & Slangen, 2006).

Second, another factor that influences the choice of entry mode of firms into foreign countries is the level of environmental uncertainty in that country. Environmental uncertainty refers to the sum of uncertainties in a given country. Some authors have somewhat focused on country risks. Country risk refers to foreign country financial, political and economic risk that affects business activities. Agarwal & Ramasewami (1992), in their research on choice of foreign market entry mode and the influence of location has shown that the higher the foreign country risk, the greater the tendency to enter foreign markets with smaller commitments of resources to obtain greater flexibility in adapting to the turbulent nature of external conditions. Thus, the greater the risk, the greater the use of nonequity entry modes to internationalise into the target country.

Third, a firm's international experience and degree of internationalisation is another factor that influences the choice of entry mode of SMEs into foreign markets. The level of internationalisation and experience on foreign markets of the investing companies are important factors that determine the choice of the entry modes of SMEs. Thus, the greater the firms international experience the higher control level on the investments chosen by the firms (Anderson & Gatignon 1986; Gomes-Casseres

1989). However recent research has been focused on relevant international experience to the target market.

Business relationships have been a recent development in marketing by which firms build relationships and strategically utilize them to achieve business goal and long term performance. Several studies related to internationalisation of knowledge intensive SMEs have indicated that networks have strong impact on market and / or entry mode choice (Bell, 1995; Coviello, 2006). Also, Holmlund (2002) addresses the impact of the domestic business network on (SMEs) internationalization activities, through a study of manufacturing firms from Finland. According to him, the business network in which an SME is embedded will impact on the internationalization process.

FDIs require high commitment of resources compared to other entry modes. The determinants of FDI in a given country vary between countries. Thus, firms set up FDI in a given market for several strategic reasons which are usually a synergy of both firm specific advantages and country specific factors. In other words, there are specific factors in a given country that may prohibit or inhibit the use of FDI entry mode into a particular country.

1.3 Research Goals

The purpose of this study is to identify and to analyze the key factors influencing the choice of non-equity entry modes of Finnish SMEs into Nigerian market. To be able to answer the purpose of this research, this paper will address the following main research question:

"How can the factors necessitating the absence of Foreign Direct Investment of Finnish SME's into Nigeria be described?"

1.4 Definitions

This section, lists some of the mostly used terms in the masters thesis. The definitions that will be provided here will be used throughout the thesis except otherwise stated.

Entry Modes/International market Entry Mode

Entry mode is defined as institutional arrangement that makes it possible the entry of a company's products, technology, human skills and capital, management, or other resources into a foreign country or market (Root, 1998).

Foreign Direct Investment (FDIs)

For the sake of this thesis, Foreign Direct Investment refers to entry modes such as Subsidiaries, Joint Ventures, Subcontracting, Greenfield Investment and Acquisitions.

Nonequity Entry Modes

Nonequity entry modes refer to entry modes such as contractual entry modes (franchising, project business, licensing) and exporting entry modes for which equity investment is not made.

1.5 Previous Research on this Topic

Internationalisation of firms is a common topic that has been discussed in widely read literatures. On the same note, Internationalisation of Finnish SMEs has been discussed in various dimensions and across various markets. Previous research that deems relevant to the theoretical questions will be discussed. However, it is worthy to note that none of these researches has been focused on internationalisation of Finnish SMEs into Nigerian Market.

Forsman et al., (2002) examine the internationalization process of Finnish SMEs with reference to earlier studies which have shown that Finnish firms follow the Uppsala Internationalization model by first doing business with Sweden and then advancing to other countries (Holmlund & Kock 1998).There findings reveals that the important factors for Finnish SMEs when internationalizing seem to be the management's interest in international activities as well as enquiries from abroad about the products.

Ojala, (2009) studied the Internationalization of knowledge-intensive SMEs: The role of network relationships in the entry to a psychically distant market by eight Finnish software SMEs entering the Japanese market. He found out that the decision to enter the Japanese market was for strategic reasons rather than to follow network relationships. Thus, entering the Japanese market was not influenced by existing business relationships. However, the important relationships were actively utilized or developed to achieve the market entry, and were, in many cases, mediated relationships with non-profit government-owned consulting firms.

Ojala, (2009) also studied the market entry and entry mode choice of eight small and medium-sized Finnish software firms in the Japanese market. He found that, despite the psychic distance between Finland and Japan, most of the firms entered Japan at a very early stage of their internationalization process by using direct entry modes. This was mainly due to the market size, sophisticated industry structure, and requirements for intensive cooperation with the customers during the sales process. Also, that the

firms were able to overcome psychic distance by hiring local employees and western managers who already had working experience in the Japanese market. According to him, psychic distance is based on a manager's personal experiences and feelings about how distant a country is rather than on cultural differences between the countries.

Söderqvist & Holstius (2002) studied the internationalization of Finnish small and medium-sized service companies and found that there was no identifiable positive effect from networking and export circles. According to them, if management had had earlier contacts to the target country and if they were personally interested in the market or had advance information about it, the expectations about success would have been at least rather well fulfilled. Furthermore, they studied the frequency of use of government aid but also its usefulness as perceived by the respondents. They found that, government aids that were used were often useful or very useful. However, the marketing of some of the government services should apparently be improved, thus, governmental institutions should also be active in trying to find out the firms' real needs and target the services based on these needs.

1.6 Structure of the Thesis

The master's thesis consists of five chapters shown in Figure 3. The first Chapter of the thesis discussed general introduction about the research topic. Section 1.1 discusses the background, 1.2 discusses the problems, 1.3 discusses the research goals, 1.4 gives some definition of key terms in the thesis and finally 1.5 discusses previous research on entry modes.

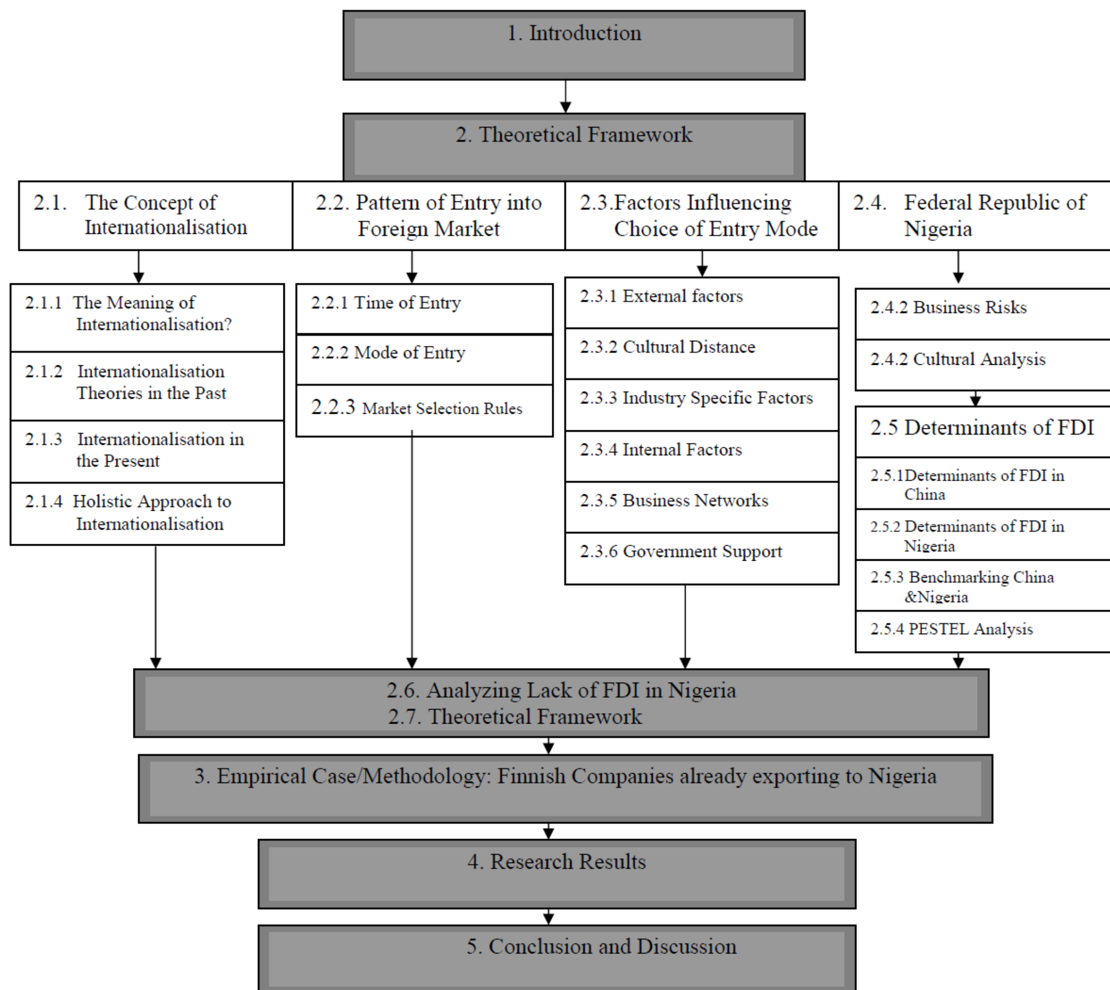


Figure 2. Structure of the Thesis

Chapter two discusses literature review on (1) the concept of internationalisation, (2) pattern of entry into foreign market, (3) factors influencing choice of entry mode and (4) analysis of the Nigerian market. Furthermore, Chapter three is focus on the methodology and empirical case of Finnish SMEs operating in the Nigerian Market. Chapter four discusses the results. Finally, chapter five will focus on findings and conclusions.

2 SMES' OPERATION MODES IN NIGERIA

This chapter will discuss relevant theories to the chosen research questions. This will be done by discussing (1) theories regarding the concept of internationalisation, (2) internationalisation pattern of SMEs (3) factors influencing choice of entry mode and finally (4) analysis of the Nigerian Market.

2.1 The Concept of Internationalisation

In today's business world, internationalisation has been a widely discussed issue amongst managers, entrepreneurs, business analysts, international trade associations etc. However, researches on this topic have proven to show disparities about the meaning of internationalisation. This section will discuss the meaning of internationalisation, the scope and holistic approach towards the concept of internationalisation.

2.1.1 What is Internationalisation?

There is no one accepted definition of internationalisation. However, relevant literatures will be explored to enable this paper to give a meaning to the concept of internationalisation.

Internationalisation may be seen as a process by which firms move their activities into foreign countries or the movement from domestic market to the global market (Alexender & Meyers 2000, p. 342). Internationalisation can also be said to be a process by which firms gradually increase their commitments in international operations across boarders (Johanson and Vahlne 1977. p. 23). These definitions view internationalisation as an outward driven activity and firms incremental commitments in foreign markets. Recent researches have been more directed to include inward driven activities and linked activities. According to Fletcher (2000, p. 34), exports is not the first and only single activities that firms undertake during their early stage of internationalisation or is not a precondition for other forms of internationalisation, rather firms undergo both inward driven activities such as imports and linked activities as in strategic alliances. Also, Luostarinen (1979) defines internationalisation as the process of increasing involvements in international operations. The operations include both inward operations and outward operations such as imports and exports respectively.

Furthermore, Internationalisation should not only be seen as an activity of firms involvement in a specific country overseas, rather it should be seen from a holistic or global perspective to also mean contraction of firms resources in a specific overseas country to devote better resources to serve other countries (Fletcher 2000, p. 30).

Thus, internationalization from the context of this research is the movement of international activities and operations from one country to the other. It may be movement of operations/international activities from home country to another international country or vice versa. It can also mean reducing operations in one international country and moving it into another country.

2.1.2 Internationalization theories in the Past

Internationalization of firms has been a wide concepts discussed over time. Previous researches were centred on exports. However, it extends across exports to licensing and manufacturing overseas (Fletcher 2000). This section will discuss the scope of internationalization by analyzing existing theories on internationalisation that it has considered relevant to this research. These theories are the, Uppsala theory (or U-model), Innovation-related internationalization (or I-model), and the Finnish model.

First, the Uppsala internationalization model emphasizes that internationalization is usually a step by step, commitment to manufacture and to sell in foreign markets driven by experiential market knowledge that can be gradually acquired through operations abroad. This implies that companies are likely to create stronger commitments to foreign markets from closest (psychic close countries) to more distant (psychic distanced countries) and operations (from simpler, like exporting, to more complicated, like establishing production subsidiaries abroad) incrementally as they gain experience from their current market activities (Johanson and Vahlne 1977, 1990, 2003; Johanson and Wiedersheim-Paul, 1975). In this case, the process of internationalisation would be faster only if enterprises are large, have substantial resources and considerable experience in similar countries, and if market conditions are stable (Johanson & Vahlne, 1990).

Second, the Innovation-related internationalization (I-Model) state that firms internationalisation can be described in the form of product adoption model, thus a step by step process (Bilkey 1978; Leonidou & Katsikeas 1996 & Vissak 2003). Although, the number of stages by the authors varies in different papers, they seem to agree that each new step represents more experience/involvement than the earlier stages. Unlike the U-model, the authors belonging to this stream demonstrate that several other important factors and actors impact internationalization besides knowledge (Bilkey, 1978).

Third, the Finnish model consent that firms often start their internationalization from closest countries and simplest operation forms (Chetty, 1999). This agrees with the U- and I-models that at first firms tend to penetrate closest countries (Vissak 2004, p. 114). After gaining confidence and assurance they might seek more distant markets. It also agrees that as companies internationalize, they may change the method of

operating, for example, move from the stage of no exporting to exporting via an agent, then, creating a sales subsidiary, and finally, a production affiliate (Luostarinen & Welch, 1997). The Finnish model also implies that firms can leapfrog some stages and speed up their internationalization (Chetty, 1999). According to Korhonen (1999), the inward internationalization process might pave the way and influence the development of outward activities and vice versa and that enterprises can de-and re-internationalize during the process.

While, these three stream of theories have contributed to the knowledge of internationalisation of firms, they are often been slated. (For an overview, see Arenius 2002; Chetty 1999; Johanson and Vahlne 2003; Leonidou and Katsikeas 1996; McDougall and Oviatt 2000; Moen and Servais 2002; Pedersen 1999; Turnbull 1987; Vissak 2003). The first two models have been often criticized for being too deterministic, thus they propose that during their internationalization, companies move through certain stages without skipping them. It provides only a partial explanation of the internationalization process, failing to explain why firms inevitably have to move from the exporting stage to foreign sales and production subsidiaries, and not including all foreign market entry modes.

In addition, the three research streams do not show how companies speed up their internationalization process and how they solve the problems inhibiting their switching from one market operation mode to another. Several researchers have claimed that the old models of incremental internationalization are no longer valid and there is a need for new approaches, placing attention to the impact of foreign owners and network relationships, that the U and I-models ignore and the two other research streams do not clearly demonstrate (Vissak 2003 p. 3).

2.1.3 Internationalization in the Present

The two recent internationalisation theories widely discussed in literatures are the Born-global model and the Network model. This section will discuss them respectively.

First, the born global model (international new ventures) attest that some companies leapfrog into internationalization notwithstanding the fact that their resources are constrained by their young age and small size, their markets are most volatile and they, by definition, have little or no experience in any country (Oviatt and McDougall, 1994). According to them, these firms coordinate almost all activities in the firm across national and regional borders and they do not merely react upon possibilities in the global markets but are extremely active globally to get access to resources and markets. However, the literature on born global, in turn, is claimed to

be too narrow and overlook some important issues like low-technology industries and the inputs of internationalization.

Second, the network approach emphasizes the processes involved in market entry and how to become a participant in the network (Salmi, 2000). According to Johanson & Mattsson (1988), internationalisation is a process by which firms uses its business relationships to move to lucrative markets in relation to its counterparts. According to them, this can be achieved through creating relationships in foreign country networks that are new to it (international extension); the development of relationships and increasing resource commitments in those networks in which the company already has a position (penetration) or connecting the existing networks in different countries (International integration). The network theory, establishes four groups of companies depending on their internationalization environment.

The early starter: The early starter has little knowledge of foreign markets and it cannot use relationships in the home country to gain it (Hinttu, Forsman & Kock 2002; Hadley & Wilson 2003; Johanson & Mattson 1988). This implies that, if a firm starts to export, it might not meet internationally active competitors or customers (Wilkinson, Mattson & Easton 2000). Based on this, the company uses agents, distributors or customers abroad to internationalize, reduce cost and uncertainty and benefit from the agent's previous knowledge and investments in that market. The plan to go abroad is often taken by other counterparts than the firm itself. According to Johanson and Mattson (1988, p. 205), the alternative strategy, to start with an acquisition is primarily possible for the companies that are large and resourceful in the home market.

The Late starter's: The late starters internationalization process describes a domestic firm which has a number of indirect relationships with foreign networks (Johanson & Mattson 1988). For instance, a firm's whose suppliers, customers and competitors are international means that it has a number of indirect relations with foreign networks even if it is purely domestic. According to them, the firm's relationships in the home market may drive it to enter foreign markets. Thus, "late starter's internationalization may also be led by indirect foreign network relationships. The closest markets, however, might be difficult to enter (as the competitors have more knowledge and because it is hard to break into an existing network), so the company might start its internationalization by entering more distant countries (Chetty & Blankenburg Holm, 2000), if it tries to internationalize at all.

The lonely international: The Lonely international describes companies that have experience of relationships in local and in foreign countries (Johanson and Mattson, 1988). It has knowledge and means to handle environments thus, failures are less likely (Chetty and Blankenburg Holm 2000; Johanson and Mattson 1988). Its

network, on the other hand, is only lowly internationalized (Johanson and Mattson, 1988). The companies may work with suppliers to upgrade inputs and thereby enhance their competitiveness, but the latter are only indirect exporters (Wilkinson, Mattson and Easton, 2000).

International among others: This happens when the firm and its environment is highly internationalized (Johanson & Mattson, 1988). Thus, the firm can use positions in one network for bridging over the other networks (Johanson and Mattson, 1988). According to Andersson (2002a; 2002b), this is the case for international companies penetrating developing countries like the African countries by using one of its networks of suppliers. An international company of this kind faces challenges of co-ordinating activities in different markets. The company may however, purchase components and sub-assemblies rather than do the manufacturing itself (Johanson and Mattson, 1988).

The Network approach is a good starting point when examining the internationalization process (Björkman and Forsgren 2000; Laine and Kock 2000), because it is able to capture its interconnectedness and concurrence, inward and outward internationalization (Fletcher and Barrett 2001). It also represents an important theoretical framework for describing the foreign market/customer selection (Andersen and Buvik 2002; Coviello and Munro 1995). While, the network approach has these advantages, it also faces some limitations. Most importantly, the network approach has limited strength for understanding the pattern of internationalization, not offering very precise conclusions, including too many variables (Björkman and Forsgren 2000). According to Nummela (2002), the network approach rarely describes how small and medium-sized firms use networks in their internationalization rather it concentrates on larger and/or manufacturing companies. In addition, the model does not address how firms shift positions in the typology: for example, how an early starter becomes an international among others (Chetty and Blankenburg Holm 2000), and does not discuss in depth how to create relationships where none exist (Andersson, 2002; 2002b).

2.1.4 Holistic Approach to Internationalization

The holistic approach recognises four factors (For an overview see Fletcher 2000 p 25-49). First, firms can become internationalise by inward driven activities such as indirect importing, direct importing, or becoming the licensee for a foreign firm, or becoming a joint venture partner with an overseas firm in its domestic market or by manufacturing overseas to supply the home market. Second, a firm can also be internationalise by outward driven activities such as export intermediary, export agent, export direct, sales office overseas FDI to supply overseas, licensor overseas and franchisor overseas. The outward driven activities can also lead to inward activities. Thus outward internationalization can also lead to inward internationalisation. Third, there is a linking

between inward activities and outward activities as in the case of strategic alliance. Finally internationalisation should be viewed as a global activity that goes beyond firm's involvement in a specific overseas country. Thus, should be seen as a process that does not only predict firms' expansion of international activity in a particular country but also firms' contraction of activities in a particular country.

Furthermore, a firm's environment also predicts the form of internationalisation activities that a firm will undertake (Fletcher, 2000). These environments were summarised by Cavusgil & Naor 1987; Aaby & Slater 1989, as internal environments or external environments. According to them, internal environments are classified into management characteristic and organisational characteristics while external environments are classified into external impediments and external incentives. These environments describe the factors motivating internationalisation of firms. These characteristics are summarized in Table 1 below.

Table 1. Factors causing internationalisation of firms (Fletcher 2000)

Internal Environment		**External Environment**	
Management characteristics	***Organisational characteristics***	***External impediments***	***External incentives***
Demographic: *Age-*	*Willingness to develop products for overseas markets*	*Marketing activities by competitors in overseas markets and lack of continuity in overseas orders, tariff and non tariff barriers-*	*Availability of export incentives from government*
Demographic *Education*	*Technology advantage*	*Exchange rate movements*	*Overseas demand factors such as competitiveness*
Demographics: *International Exposure such as country of birth*	*Willingness to fund international activities*	*Knowledge of markets and how it operates*	*Inquires vie industry bodies or government representatives overseas or information in publications*
Time spent living overseas	*Size as measured by employment-*	*Altitudes of foreign government and agents*	*Fall in domestic demand or excess capacity*
Frequency of Business trips overseas	*Willingness to research overseas markets*	*Cost issues, lack of export training and government assistance*	*Reductions in costs of production*
Knowledge of International business practices such as culture	*Having a focus on research and development*		
Structured approach to Management such as planning Orientation	*The nature of the product*		

2.2 PATTERN OF ENTRY INTO FOREIGN MARKETS

The previous section discussed different theories of internationalisation and firms motives for internationalisation. This section will discuss entry pattern of SME's into foreign market.

2.2.1 Time of Entry Pattern

Time of entry pattern is an important dimension of entry strategies of firms into international markets. Previous internationalisation research did not consider the dimension of time of firms' entrance into international market and its influence on choice of entry mode, and choice of market. It has attracted recent consideration in literatures (see Gallego et al., 2009).

Time of entry refers to time lag between the founding of a firm and the initiation of its international operations (Ovaiatt & McDougall, 1994; Knight and Cavusgil, 1996) or the first decision to expand abroad. Time of entry has been seen as a variable that possibly conditions mode of entry and choice of market (Gallego et al., 2009). An earlier timing of entry tends to lead a firm to choose more conservative ways of settling in other countries (exporting), whereas the longer the firm takes to jump into foreign markets, the more committed it is, as it has had time to gather more information, and will opt for less conservative modes of entry (subsidiaries) (Kedia et al., 2002; Oviatt et al., 2004; Freeman et al., 2006). However, entering later may be initially less costly than pioneering; there is a risk in terms of successful access to the market (Tuppura et al., 2008). According to them, in a favourable environment the early entrant has the possibility of achieving substantial first-mover advantage but at the same time the pioneering strategy is always risky. The firm that wishes to reach for the possible early mover advantages by the internationalization strategy should take care that its resources are in line with the strategy to promote the success of the chosen strategy (Tuppura et al., 2008).

Gallego et al., (2009), in their study on the relationships between time of entry, choice of market and entry mode choice has established that there seems to be a relationship between time of entry, choice of entry mode and choice of market shown in Figure 3.

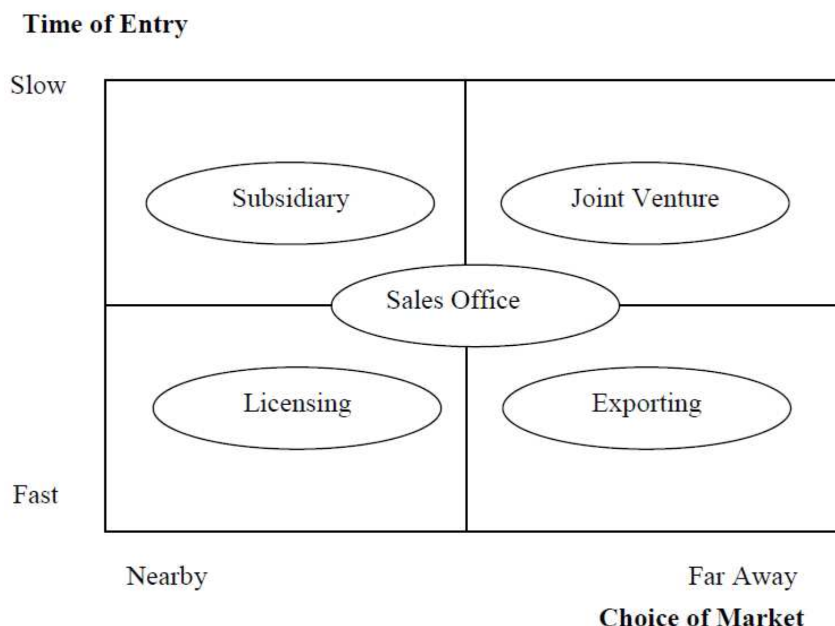


Figure 3. Relationship between Timing of internationalisation and modes of market entry (Gallego et al., 2009, p. 322)

According to them, there is a relationship between time of entry, entry mode and choice of market such that;

- When entry timing is fast and the destination market is far away, the firm will choose the least compromising internationalisation method which is exporting given that everything else under consideration remains the same
- When entry timing is slow and the destination market is far away, the firm will choose the second most risky mode of entry which is joint venture given that everything else under consideration remains the same
- When entry timing is slow and the destination market is near, the firm will choose the most compromising internationalisation method which is Subsidiaries (Foreign Direct Investment) given that everything else under consideration remains the same
- When entry timing is fast and the destination market is nearby, the firm will choose licensing given that everything else under consideration remains the same.
- When entry timing and distance from the destination market are intermediate, the firm will choose for an equally intermediate mode of entry which is Sales offices given that everything else under consideration remains the same
- Companies that do not respond to these logic is as a result of certain mediating and moderating variables that affect the perceived risk and risks that these companies are prepared to assume in their internationalisation process.

This model may seem to be too deterministic for failing to discuss what amount of years constitute a fast and slow time of entry. Thus, how many years could be used to describe that time of entry is fast or time of entry is slow.

2.2.2 Modes of Entry Pattern

One of the most critical decisions firms faces when internationalising is deciding on entry modes. This is because any commitments they make will affect every aspect of their business for many years (Doole & Lowe, 1999; Benito & Welch, 1994). Each mode of entry carries a degree of commitments, risk and resources. According to Root (1994), entry modes can be classified into export entry modes, contractual entry modes and investment entry modes. Each of these entry modes has a variety of subtypes.

First exporting is a relatively easy mode of internationalization and requires limited investment in terms of time and cost. In export entry modes, the company's final products are manufactured or otherwise produced outside the foreign market. The disadvantages are the transportation cost of goods, trade barriers, including tariffs and possible lack of alignment with foreign sales agents. Many of these problems can be solved using contractual entry modes or investment entry modes. However exports entry mode has low control, low risk and high flexibility (Hollensen 2004, p. 28).

There are different types of exports which can be classified into indirect export, direct export and own exporting. Indirect export is a form of exporting in which the company products are exported to foreign markets using a domestic intermediary (Hollensen 2004, p. 293). Direct exporting is when the intermediary is located in the foreign market and the company is directly connected to this intermediary located in the foreign market (Kotler 2000, p. 375). Finally own exporting is similar to other export entry modes however, have no domestic or foreign intermediary between the producer and final customer (Luostarinen & Welch 1990, p. 27).

Second, contractual entry modes are also non-equity associations between a company and an entity in a foreign target country to form an advantageous business arrangement for both parties to achieve the goals set (Hollensen 2004, p. 308). Contractual entry modes can be divided into four major types; Licensing, Franchising, Technology transfers, Subcontracting and Project operations. The difference between contractual entry modes and export is that it is a vehicle for technology transfer or transfer of human skills as well as shared level of control and risk (Hollensen 2004, p. 284). According to them, licensing involves a process in which a company transfers the right to use technology and human skills to an entity (Licensee) located in the foreign market. These might include patents, manufacturing know-how not subject to patents, trade secrets, trademark, technical advice and assistance (Hollensen 2004, p. 284). In licensing arrangements, ownership is created using legal means and there exist no equity associations between the company and the entity in the foreign market (Root 1998, p. 85).

Franchising is a form of entry mode in which the company (franchisor) licenses a business system including its property rights to the licensee (Franchisee) operating in foreign market (Cavusgil et al 2002, p. 94). Technology transfer includes exchanging technology and service expertise through standard export arrangements or project work, licensing arrangements, joint ventures and direct investments (Root, 1998). Subcontracting is a form of entry mode in which a firm enters into a foreign country to perform part of a business process of another firm. Thus, the local firm in the foreign market receives products or manufacturing process from the foreign firm (Hollensen 2004, p. 310). Project business is a temporary business activity that is carried out by foreign firms in foreign countries geared towards offering unique product/services within a specific time limit.

Third, investment or equity entry mode can be divided into mainly joint ventures and foreign direct investment (Acquisitions & Greenfield Investments). Joint venture is a form of entry mode in which two or more organisations carryout a certain a business contract while remaining independent but set up a jointly owned newly created organisation (Johnson & Scholes 1997, p. 310). Joint Ventures require limited resources and market knowledge because the foreign partner has this knowledge.

Foreign Direct investment (FDI) as an entry mode enables the firm to control its foreign operation and to benefit from location based advantages including knowledge and capabilities. This is however a high risk entry mode, with high commitment, requiring substantial financial investments. It is time consuming and complex, and flexibility is very limited because of sunk costs. Figure 4 and 5 shows the difference between the level of risk and control between different entry modes.

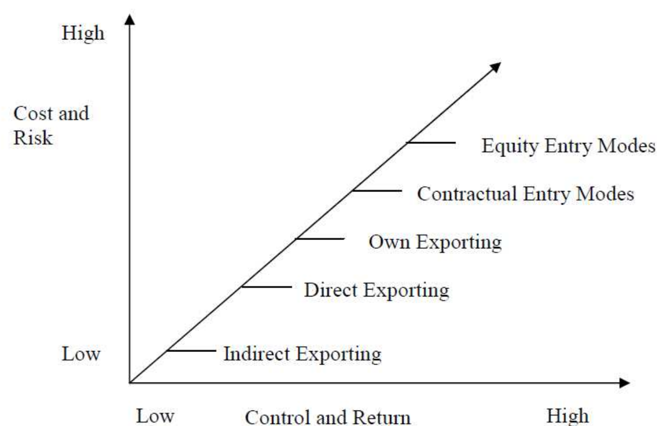


Figure 4. Relationship of control, return, cost & risk of entry modes (Hamill 2004, p.4 Modified)

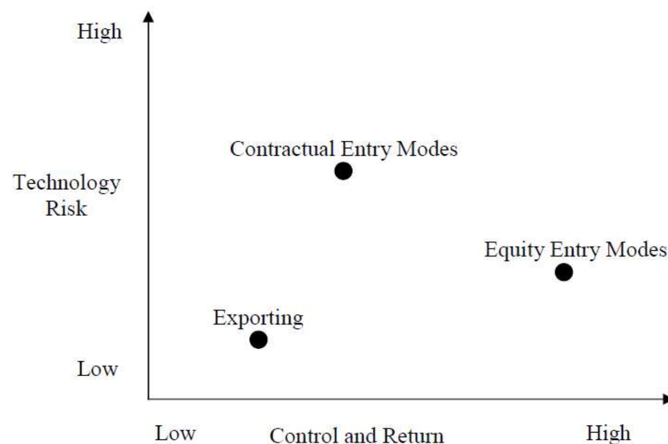


Figure 5. Technology Risk in entry modes (Osland et al 2001, p. 155, modified)

On one hand, Figure 4 shows that as the entry mode choice changes from exporting to investment entry mode, the level of cost and risk increases as well as an increase in the degree of returns. On the other hand, Figure 5 shows that technology risk is highest for contractual entry modes with a moderate degree of control and return, while for investment entry modes, the technology risk is moderate with a highest level of control and investment. Finally, exporting has the lowest degree of technology risk and level of control and return. Thus, across the different entry modes technology risk is said to be highest in contractual entry modes e.g. licensing, followed by joint ventures, foreign direct investment and then finally exporting.

2.2.3 Market Selection Rules

One of the most complex and challenging decisions SMEs faces is selecting the most effective entry and development mode. Researches on SMEs choice of entry mode has shown that SMEs enter foreign markets through (a) exporting, (b) licensing, (c) sales office, (d) Joint venture and (e) own subsidiaries. These five entry models form part of a scale as far as the level of resources committed by the firm is concerned. SMEs enter into foreign market with different entry modes and their choice of entry mode affects their performance in foreign market (Beamish, 2001). Each mode of entry has its own merits and demerits as well as control variables that enhance its performance.

Albaum, Strandskov and Duerr (1998) have suggested three different rules that can be used when selecting entry modes. These are: naïve rule, pragmatic rule and the strategic rule. Naïve rule implies that SME's use the same entry modes for all markets irrespective of the potential opportunities inherent in the market. Thus, naive rule is inflexible since it prevents companies from exploiting their foreign market opportunities. Pragmatic rule entails that SME's use one entry mode for each market

and no investigation of the most suitable entry mode is made. However, within this rule, SME's do not investigate all entry mode alternatives so the chosen alternative might not be the most suitable. Finally, the strategy rule implies that SMEs compares and evaluates all entry modes alternatively before making a strategic decision.

2.3 FACTORS INFLUENCING CHOICE OF ENTRY MODE

On one hand, many firms that ventured into foreign markets were not successful because they could not manage the challenges they met in the target country. This may be partly because the firms were not able to predict the actual challenges when entering into the target country and it resulted into wasted investments and efforts. On the other hand, firms decide not to invest in particular target country due to the risk or challenges of investment in that target country. Thus, firms may decide to choose less risky entry mode to annul the effects of business risk in that target country.

Root (1988) developed a framework for foreign investment decision which shows the factors and challenges a firm may encounter when entering into foreign market. The factors are classified as internal and external factors. Examining these factors to a great extent will enable a firm to analyse various issues that would determine their investment decisions into foreign market.

Figure 6 shows Root (1988) decision model that provides a framework of analysis for determining entry mode choice.

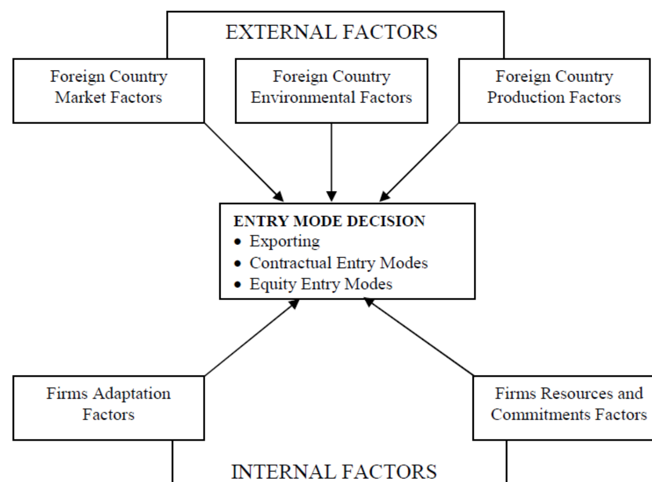


Figure 6. Modified from Root (1988): Foreign Market Entry Framework

First, foreign country marketing factors in the framework includes market size, competitive structure and infrastructure. Second, foreign country environment factor includes political uncertainty, economical uncertainty, cultural uncertainty and geographic distance of the target country. Third, production factors refer to the

quality, quantity, and cost of raw materials and labours in a target country. These first three factors are external factors which firms cannot directly influence by its actions. Two internal factors include firm adaptation and resource commitment from investment companies. By analyzing each factor, investors might gain an in-depth understanding of their investment opportunities and barriers in a target country.

Furthermore, another interesting framework for analysing the challenges that a firm need to consider when making entry mode decision is the framework compiled by Dichtl & Köglmayr (1987, p. 113) shown in Figure 7.

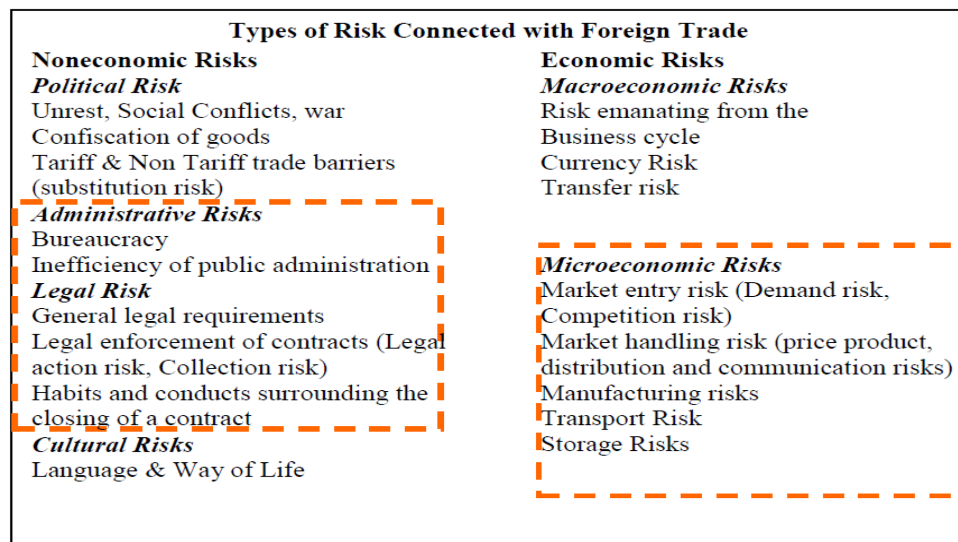


Figure 7. Risks Connected with Foreign Trade (Dicht & Koglmayr 1984, p. 113).

Although, the focus on this framework is basically on foreign trade, however, they also to a great extent play major influence on entry mode choice decisions. Most of the risks highlighted in Figure 8 are similar to Root's entry mode decision framework. For example, Microeconomic risk is similar to foreign market factors and production factors. However, legal risk and administrative risks were not described by Root's entry mode decision model. Administrative risks and legal risk is of great consequences for entry mode decisions. For example a country with a poor legal system and enforcement may not keep to terms of contracts. The next section will elaborate more on these factors in their respective classifications.

2.3.1 External Factors Influencing Entry Mode Decisions

External factors are factors for which firms cannot directly influence by its actions. They include foreign country environmental factors, production factors and market factors.

First, foreign Country Environmental factors are the danger, limitations, restrictions, or even loses firms may face when engaging in foreign investment. According to Root (1987), foreign country environmental factors includes government policies, and regulations, geographic distance, economy of foreign country, external economic relations and cultural distance. Miller (1992), offer another foreign investment decision framework, describing environmental challenges a firm may encounter when venturing into foreign investment as shown in Figure 8.

General Environmental Uncertainties	
Political uncertainties	***Macroeconomic uncertainties***
War Revolution	Inflation Changes in relative prices
Coup d'etat	Foreign exchange rates
Democratic changes in government	Interest rates
Other political turmoil	Terms of trade
Government policy uncertainties	***Social uncertainties***
Fiscal and monetary reforms	Changing social concerns
Price controls	Social unrest
Trade restrictions	Riots
Nationalization	Demonstrations
Government regulation	Small-scale terrorist movements
Barriers to earnings repatriation	***Natural uncertainties***
Inadequate provision of public services	Variations in rainfall
	Hurricanes
	Earthquakes
	Other natural disasters

Figure 8. Miller General Environmental Risks

Miller’s general environmental risk analysis is similar to Root, (1988) environmental factors. Thus, on one hand, while Miller’s environmental factors elaborates other external environmental factors proper, on the other hand, Root (1988) environment factors provides additional environmental factors that need to be considered when making environmental analysis for entry mode decisions. These additional factors are cultural uncertainty and geographic distance and have been discussed in widely read literatures as cultural distance between home and foreign markets and psychic distance respectively. Next sections will discuss among others the influence of cultural distance and psychic distance.

Second, foreign country market factors or market handling risk (Dichtl & Köglmayr 1987, p. 113), are infrastructure that defines how a foreign firm will distribute, price and sell its products. It also refers to the methods available within a market to sell, distribute, advertise, and promote a firm's products or services (Ahmed et al., 2002).

The challenge in this case, is that some countries lack suitable agents, distributors and infrastructure needed to market their goods and services. Example includes presence of ICT, logistics services, poor transportation services, etc. Thus, a firm need to analyse foreign market infrastructure when making entry decisions because using incorrect marketing channels or networks based on home market experience without adjusting for differences in the targeted foreign market, may results in unfavourable outcomes (Brouthers, 1995). Finally, foreign country production factors or manufacturing risk (Dichtl & Köglmayr 1987, p. 113), are factors that affect the production of goods and services in the target country. The challenge firms would face in this case would be the availability of highly-skilled workers, quantity and quality of materials as well as the availability of energy; most importantly, consistent power supply (Tammilehto 2005, p. 34).

Research involving choice of entry mode found support for SMEs to choose nonequity entry mode into foreign market characterise by high environmental risks or uncertainty. For instance, in his study, Osborne (1996) found that New Zealand SMEs selected nonequity entry modes in markets characterized as "volatile." (Volatile markets are nations perceived as experiencing endemic or political instability). Furthermore, in their study, Brouthers, et al. (1996) found that U.S. software SMEs perceiving higher risks in a foreign market preferred nonequity entry modes, while those perceiving less risk opted for equity modes. In support of the foregoing, Shrader, et al. (2000) also found out that new U.S. international ventures tended to utilize equity entry modes in lower risk countries and nonequity entry modes in higher risk nations.

2.3.2 Cultural Distance

Cultural distance is the extent to which the shared norms and values in one country differ from those of other countries (Hofstede, 2001; Kogut & Singh, 1988). Cultural distance between a firms home and target country may inhibit an effective transfer of knowledge and other intangible resources between the two markets which in turn may reduce sales in the foreign market (Bradley, 2005, p. 99–102). Furthermore, cultural distance may set hurdles during the integration of foreign acquisitions or during joint venture (Morosini et al., 1998).

The most common framework utilised by literatures to explain the impact of cultural distance on firms' internationalisation has been Hofstede (1980) framework and Schwartz (1994) framework. Hofstede framework explores four dimensions; individualism vs. collectivism, masculinity vs. femininity, high power vs. low power and avoid uncertainty vs. tolerates uncertainty. Individualism vs. collectivism explores the degree to which individuals are integrated into groups. On the individualist side, the ties between individuals are loose: everyone is expected to look

after him/herself and his/her immediate family. On the collectivist side, people from birth onwards are integrated into strong, cohesive in-groups, often extended families (with uncles, aunts and grandparents) which continue protecting them in exchange for unquestioning loyalty. Masculinity vs. femininity explores the distribution of roles between the genders. Hofstede's Power distance index measures the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. Finally, Uncertainty avoidance deals with a society's tolerance for uncertainty and ambiguity.

Schwartz (1994) framework explores seven dimensions: conservatism, intellectual autonomy, affective autonomy, hierarchy, egalitarian commitment, mastery, and harmony. Drogendijk & Slangen (2006) explored the influence of Schwartz framework and Hofstede framework in determining cultural distance between countries and MNEs choice for acquisitions or Greenfield investment. There research emphasizes that differences in power distance, differences in individualism, differences in conservatism, differences in hierarchy, differences in egalitarian commitments between countries predicts MNEs choice for acquisitions or Greenfield investments. Thus, cultural distance between countries should affect an MNEs choice between Greenfield and Acquisition because firms located in culturally distant countries have fundamentally different organizational and managerial practices as well as communication styles, and are hence difficult to integrate into an MNEs corporate network after they have been acquired (Drogendijk & Slangen 2006). In other words, MNEs are more likely to enter culturally distant countries through greenfield investments, because such investments allow them to introduce their practices from the beginning to selected workforce that fits their organisation culture (Hofstede, 2001; Kogut & Singh, 1988).

While some literatures have found support for Hofstede cultural dimensions predicting entry mode choice, some authors have also agued that cultural distance scores from Hofstede framework may not be adequate to predict the reasons for entry mode choice. For instance, Boyd et al., 1993 supports manager's perceived cultural distance because manager's perception drives their strategic decisions and behaviour. However, Drogendijk & Slangen (2006), found statistical significance between Hofstede cultural dimensions and perceived cultural distance measures predicting choice of entry mode of MNEs. Original Hofstede scores are only available for few countries. Thus, for countries where the original Hofstede scores are not available, perceived cultural distance of managers may somewhat be an alternate measure of cultural distance measure between home country and foreign market.

2.3.3 Industry Specific Factors

Another factor that has been discussed in literatures exploring the factors that influence entry mode decision is the influence of industry specific factors. Industry specific factors refer to the host country industry structure such as market size, market structure, competitiveness and demand conditions. Industry structure is an important variable that a firm will consider when making strategic decisions on which market to enter or why they need to enter a certain market.

According to Elango et al. (2004), when entering an overseas market, a foreign firm will attempt to choose an entry mode that would help overcome industry barriers that might prevent it from succeeding in that overseas market. Therefore, while other conditions remain equal, industry characteristics/structure of the host country play a role in determining a firm's choice of entry mode (Elango et al., 2004). Industry characteristics refer to the relatively stable economic and technical dimensions of an industry that provides the context in which competition occurs (Porter, 1980). According to Martin, (1979), there are three elements of an industry structure that are important, as they affect firms profitability in a given industry (1) factors that influence the degree of rivalry (and the ease of collusion) in an industry, (2) entry barriers, and (3) demand conditions. Measuring these constructs directly is a difficult task, and because of this, past research has used surrogate measures to capture them. For SMEs, previous support on industry factors was focused on the nature of demand conditions of the industry.

Demand conditions of the target market are an important variable that triggers the motive of firms to internationalise their operation in country. According to Elango et al., (2004), in growing industries, incumbents are less likely to get involved in a price war or react adversely against new foreign entrants, as all firms would have the opportunity to grow. Hence, foreign firms attempting to enter growth industries in host country markets may not have to fight hard to gain market share. Also, high growth industries represent many unique opportunities for firms and such an industry with growing demand will be able to absorb additional capacity.

In contrast to high growth industries, entrance by new entrants into less growth industries usually affects incumbent firm's growth and profitability, thereby forcing it into a desperate battle for market share and resulting in increased competition in the industry (Oster, 1994). In such circumstances, the foreign entrant is likely to face significant competitive risk in establishing a foothold in the host country market. According to Caves and Mehra (1986), in low-growth industries, foreign firms are likely to acquire local firms, as they may find prices for acquisitions attractive due to the depressed market prospect and the need to avoid adding new capacity in a low-growth market.

The influence of market growth on entry mode has been discussed for both SMEs and MNEs. However, only scanty research for SMEs support could be seen in existing literature. Elango et al., (2004) studied the influence of industry factors on entry mode choice of MNEs in the United States and found out that greenfield entry is preferred by firms seeking entry into the United States in industries characterized by high growth rates. In addition, he also found out that in industries characterise by demand variation, foreign firms are likely to seek acquisitions or joint ventures over greenfield operations during entry. In their study, Brouthers, et al., (1996) found that U.S. computer software SMEs perceiving high levels of potential growth in a market tend to use more equity modes of entry, while those SMEs that observed that the industry has a low growth potential, tended to prefer nonequity modes.

Existing literature have found support for equity modes of entry to be preferentially considered by firms in high growth markets (Pan & Tse, 2000; Kwon & Konopa, 1993). The reason for this is because firms would invest in resources in order to acquire a greater share of the potential rewards (Nakos & Brouthers, 2002), rather than share its potential success with another firm (Agarwal & Ramaswami, 1992).

For firms that are already exporting to a particular country, export intensity may be measure of how attractive or potential the industries are. On one hand, not all firms are exploring the strength of their export in a given market. This is because export intensity depends on the strength of your partners/export agents in that market. On the other hand, not all firms are aware of the potential of a given market. That is they rely on transactional relationship with export agents from overseas country and have not researched or got to acquire knowledge about the demand conditions of their product in a given market.

2.3.4 Internal Factors Influencing Entry Mode Decisions

The previous section discussed external factors that affect entry mode decisions. The impact of external factors on foreign investment decision is influenced by internal factors (Tammilehto 2005, p. 34). Thus, assessing the external factor is closely connected to some internal factor. For instance, a company's products define what foreign country market factors are of greater significance (Tammilehto 2005, p. 34).

Internal factors can be divided into (1) Product factors and (2) Resource and Commitments factors (Root, 1988). Resource and commitment factors include firm size and experience in international market. This research extends the resource and commitment factors to include firms local business network.

First, product factors of the firm includes specific internal product advantages relating to the ability of the firm to produce differentiated products or services (Agarwal & Ramaswami, 1992).

Brouthers et al. (1996) studied the effect of technological advantage of U.S computer software SMEs in their entry mode choice and found out that U.S. computer software SMEs offering unique differentiated products tended to prefer equity modes of entry, while firms offering more generic products tended to prefer nonequity modes. Also, Osborne studied the internationalisation of New Zealand SME's and found out that New Zealand SMEs that possessed a higher ability to develop complex technically differentiated products tend to use equity entry modes, while companies selling undifferentiated commodities used nonequity modes. According to Nakos & Brouthers (2002), the reason for this is because firm with differentiated products tends to obtain the best value from their technology while safeguarding it from competitors, In addition, firms with experience of exploiting the value of their technological products in one market has an added advantage in exploiting the same technology in other markets because it has developed systems and processes for successfully marketing and delivering the product.

Product forms may provide a good description of products that are complex and uniquely differentiated. According to Luostarinen (1979, p. 96), products may be classified into goods, services, know-how, or systems based. Goods include components, materials, equipment, and machines. Services are more or less intangible, often simultaneously produced and consumed, and do not include transfer of ownership (Grönroos, 1990, p. 29). Know-how products can be seen as unique know-how that is often protected with a trademark or patent and is usually licensable. Systems can be seen as a combination of physical goods, services and/or know-how, which represent a total solution to customers' needs (Kosonen, 1991, p. 40).

Second, firm size refers to the amount of managerial and financial resources that the firm has at its disposal (Nakos & Brouthers, 2002). Accordingly, firms with greater resource accessibility may be in a better position to make both managerial and financial investments needed to establish an equity mode of entry (Agarwal & Ramaswami, 1992). According to Luo (1997), firm size favours performance of MNEs even after controlling for mode of entry; this is because their large resources enhances the covering of entry cost and achieving economics of scale (Benito & Welch 1994, p. 9-10). Thus, while SMEs may not have the financial and/or managerial resources required to establish and operate an equity entry mode, they therefore opt for less resource commitment nonequity entry modes (Contractor, 1984).

Third, firm's international experience (age and experience of doing business in foreign markets) has been seen to also affect entry mode decision, in the sense that the accumulation of foreign market knowledge from various sources constitutes a valuable entrepreneurial resource to a firm (Dhanaraj & Beamish 2003) and it exerts a significant positive influence in the performance of SMEs. Thus, the accumulation of experience about foreign markets leads firms to a better knowledge and understanding of business opportunities both domestically and internationally and therefore, as time passes the international involvement of firms would increase (Majocchi et al., 2005).

Furthermore, Gankema et al. (1997) studied the entry mode choice of manufacturing SMEs from eight western European countries and found that as SMEs gained experience they moved from exporting to equity investments. Also, Shrader, Oviatt, and McDougall (2000) studied the internationalisation of US international ventures and found out those SMEs that had management teams with long international experience tended to use equity entry modes, while firms with managers without extensive international experience tended to use nonequity modes. Finally, Brouthers et al. (1996) studied the internationalisation of computer software SMEs in the United States and found that more internationally experienced U.S. computer software SMEs tended to prefer equity entry modes, while less experienced ones tended to prefer nonequity modes.

The implications of firms international experience and knowledge is thus; a firm with knowledge and international experience will perceive the destination market to be culturally near and the target country risk would be seen to be reduced because the firm has more knowledge about the destination market from previous international business experience in similar markets (Dow & Larimo 2007), and they tend to have greater possibilities to cushion the effect of the country risk and cultural distance. The next section will discuss the role of business networks.

2.3.5 Business Networks

Business networks discussed how firms will utilise their relationships with other market players in business networks for internationalisation. Business Networks have been studied in many contexts (for overviews see Easton, 1992). According to Easton (1992), business networks consist of four basic elements which are (1) relationships (2) structures (3) positions (4) processes.

The relationship elements entail that networks is a sort of cluster of relationships (Helender 2004, p. 75), characterised by mutuality, interdependence, different power relations, and investment made in relationships (Easton, 1992). As structures, networks are concretised through the interdependency between organisations

(Helender 2004, p. 75). As positions, networks are viewed from the role of the company in relation to other company (micro-position) and the role of a company in the entire network (macro-position). As processes, networks describe the nature of the relationship that exists within the networks.

According to the IMP group, business networks have been analysed as a combination of actors, activities and resources. Actors perform and control activities with the help of resources. Through exchange relationships between actors, they maintain and develop relationships with each other based on economic, legal, technical, knowledge, social and administrative grounds.

Smilor & Gill (1986, p. 29) studied business network of SMEs and identified six different types of networks of actors shown in Figure 9.

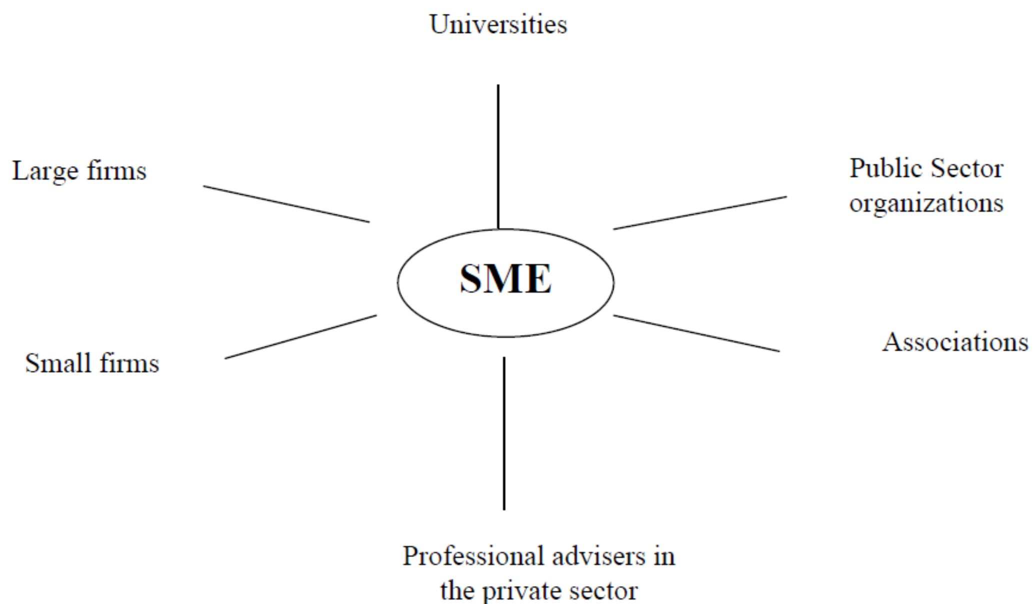


Figure 9. Types of SME Networks (Smilor & Grill 1986, p. 29)

The relationship between the members of this business network can be developed by either actor. Active networking is used to describe relationships developed by the buyer while passive networking is used to describe relationship developed by the seller (Johanson & Vahlne, 1990). However the relationship is initiated, it is assumed that the relationships between actors in Figure 9 can assist SMEs in their internationalisation. Thus, the fundamental question remains how can these networking relationships strategically help firms in their internationalisation process or does network relationships predicts firms' internationalisation?

Holmlund and Kock (1998) studied Finnish SME's and their internationalisation from the network perspective. They posited that local business network partners that are

already internationalised has a major role in the internationalisation of Finnish SME's especially at the early stage of their internationalisation. Thus, the kind of local business network partners a firm has would to a great extent influence their internationalisation path and drive. This is consistent with the findings of Coviello & Munro (1997), that foreign market selection and entry are initiated by opportunities through network contacts rather than based on strategic decisions of SME managers.

Sharma and Blomstermo (2003), in their study on the internationalization process of knowledge-intensive SME's showed that, their internationalisation was influenced by their network ties and their ties provided them with the information and knowledge that enabled them to internationalise into foreign market.

On one hand, these stream of researches discussed above shows support for the influence of networks on international market selection. However, they found no support that business network influence choice of entry mode. Thus, entry mode choice is based on the requirements of the market and the client in question (Sharma and Blomstermo 2003). On the other hand, Ojala (2009) studied the internationalisation process of Finnish Knowledge intensive SMEs and found that the internationalisation process of Finnish SMEs into Japan was basically on strategic reasons without recourse to their networks. He also found that through mediated relationships (relationships initiated by a third party) firms can achieve entry to psychically distant markets.

Finally, based on the Actors-Resources-Activity network model, Purchase & Ward (1999) analyzed the internationalisation path of Australian consultancies and found that the activity link between network partners is the necessary basis for internationalisation and that the other layers of relationships (actor bonds and resource ties) develops later.

2.3.6 Government Support

It could be said that as far as SMEs are concerned, government support programs directly or indirectly influence their international market selection especially at their early stage of internationalisation into foreign market.

Government business support programs both in home and in foreign markets can help firms identify markets and then develop business in that market. Thus, Government support programs can be helpful in targeting and evaluating new markets. The role of government can be in form of trade mission and trade shows which provides managers with the chance to investigate markets, meet buyers and distributors, discuss exporting with more experienced participants, and make initial international business contacts.

Trade mission are commonly led by a product specialist or high level government official who arranges meetings between buyers and sellers at an appropriate overseas location (Jaramillo, 1992). While trade missions may contribute to sales in foreign markets, they generally accomplish this by enhancing the process of building relationships between potential business partners over an extended period of time (Spence, 2003).

Furthermore, on one hand, trade missions may be best suited for investment attraction purpose (Wilkinson & Brouthers, 2006) and on the other hand, trade shows may give representatives of companies an effective means of obtaining knowledge about foreign markets (Ramaswami & Yang, 1990; Seringhaus & Rosson, 1998). Thus, the use of state sponsored trade shows and trade missions would be positively associated with firm performance in foreign markets.

2.4 FEDERAL REPUBLIC OF NIGERIA

The previous chapter has reviewed literature on pattern of entry and reason for none equity entry modes, concluding with a theoretical framework meant for the empirical analysis and investigation. Presently there seem not to be any literature on market entry into Nigeria for Finnish Firms, however, this section shall review precisely some relevant literatures about the Nigerian Market.

2.4.1 Business Risk in Nigeria

A review of the World Bank report (2006) provides interesting business challenges for foreign investor intending to do business in Nigeria. The report provided four most important challenges in doing business in Nigeria which are: weak market infrastructure, corruption, political uncertainty and social uncertainty, economic uncertainty and low level of Technology. Figure 11 below summarises the detailed breakdown of business risk encountered by western firms in doing business in Nigeria.

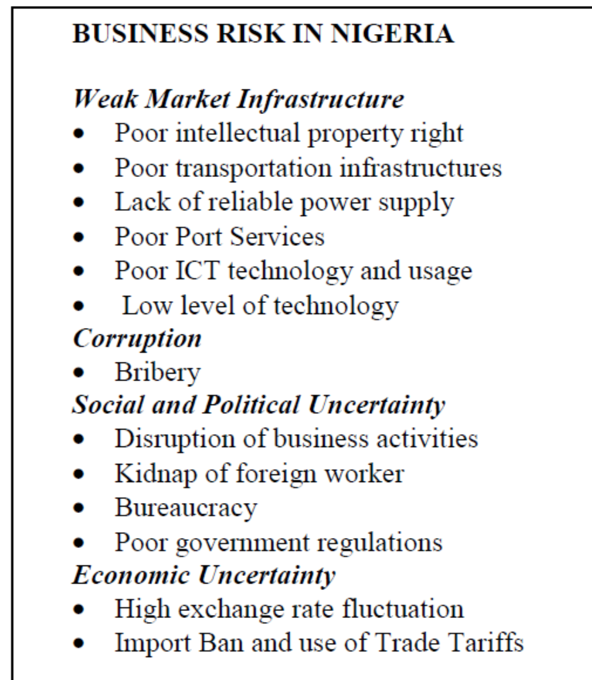


Figure 10. Business Risk in the Nigerian Market (Compiled from World bank Report 2006)

The below discussion provides interesting background analysis about each of these challenges.

First, Nigeria has a weak market infrastructure. Issues discussed here are absence of unreliable electricity, poor transportation, absence of patent protection and inefficient port services. According to the Global Competitive Report (2006), low quality and unreliable electricity is often cited as the biggest bottleneck to business investment in Nigeria. This forces firms to divert substantial resources from re-investment in their productive business to self-generation. Poor roads, poor railway infrastructure and poor transport services were highlighted as major constraints that hinder the connectivity between economic agents and markets and increases time to market.

The problem of low patent protection and property rights arises due to poor enforcement of patent protection rights by government institutions. Another market infrastructural problem in Nigeria is ICT technology. ICT technology is low in the Nigerian Market. The number of people who have access to computer and internet is quiet little and this affects internet marketing which is one of the fastest means of direct marketing. Nigeria has not been able to develop an efficient port service. Nigeria's port services are amongst the most inefficient and expensive in the world as evidenced by: (I) high waiting times, (ii) low handling speeds: and (iii) high container "dwell times" (World Bank report 2006). Finally, Nigerian industries have low technology intensity of manufacturing. The major challenge for western firms

would be choosing partners that will be technologically capable to meet their standards.

Second, Nigerian business environment is characterized by weak economic institutions. This has increased the cost of doing business in Nigeria and lowered profits available to be made by businesses and firms. According to the World Bank report, different surveys documented evidence shows that “unofficial payments” by firms for access to even the most basic economic infrastructure is quite common. This is particularly in respect of public service connections, licensing and permit processing, government contracts and customs. Firms also report paying bribes to secure government contracts. While these weak institution show corrupt practices in discharging their duties, it has to be noted that corruption is a great menace in the country and firms has to learn how to move on with it, this is because corruption is so prevalent in the country that it is nearly impossible to conduct business in the country without being asked to pay a bribe. This puts companies unwilling to pay the bribes at a severe competitive disadvantage.

Third, political uncertainty generally, includes political activities within a country that can generate risk for business operations. These are risks that arise from, government policy risk, and social risk (Miller, 1992). Business regulation and licensing procedures are complex and lengthy in Nigeria due to poor government policy on business regulation. Also, Nigeria’s economic policy has been characterized as unstable and unpredictable; in particular, there are frequent changes in trade tariffs and in the use of import bans which in turn do not favour foreign investment. Finally, Nigeria economic sector is dependent on the oil revenue which has generated ethnic social militia and threatened business activities within the regions where crude oil is generated. Risk in doing businesses in this region particularly includes, violence leading to disruption of business activities and kidnap of foreign workers.

Finally, Nigeria experiences fluctuating exchange rate. This is of great challenge to foreign investors because government sometimes increases interest rate or imposes some import barriers in other to cushion the effect of the high fluctuation of the exchange rate.

2.4.2 Cultural Analysis

This section will discuss in general fundamental issues about the Nigerian culture. After this, it will discuss Hofstede (1984) framework utilised by Sokoya (1998) to discuss the Hofstede cultural dimension of the Nigerian Society. From this discussion, the cultural distance between Nigeria and Finland will be analysed and other issues related to Nigerian culture will be emphasized.

Nigeria is the second largest country in Africa located in the Western Sub-Sahara Africa with over 250 different ethnic regions with a population of over 240million people making it the most diverse culture in the world. Nigeria has 36 states encompassing over 500 hundred different languages. However, the major languages are Hausa (Northerners), Igbo (Easterners) and Yoruba (Westerners).

The Muslims, mostly the Northern region, constitute about 50% of the population while the Christians, mostly the southern part, constitute 40 % of the population while the remaining 10% are independent religions. There are five main religious influences present in the Nigerian Society; Muslim (50%); Protestant (25%); Roman Catholic (12%); African Christian (11%) and traditional African or indigenous beliefs (10%). According to them, the family dominates the social structure thus places emphasis on one's lineage through male head of the household. The Nigerian culture is obviously class conscious which is both socially accepted and rewarded. Thus, respect for elders, boss, wealthy people, traditional rulers or titles etc.

In section 2.3.2, the dimensions of Hofstede National culture was discussed to include the following:

Power distance:	The degree to which unequal distribution of power is socially accepted within the society.
Uncertainty Avoidance:	The degree to which a society protects conformity to counter ambiguity.
Individualism:	The degree to which members of a society are expected to be responsible for others.
Masculinity:	The degree to which members of a society value achievement, material success, assertiveness over relationships, quality of life and modesty.

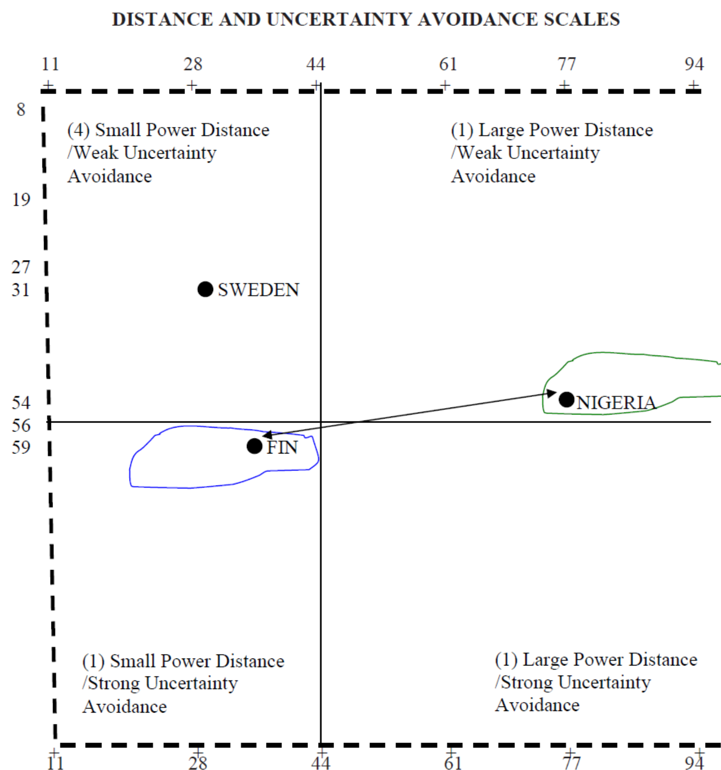
First, power distance index in Nigeria will be high because of the acceptability of inequality in the society which takes precedence over formal authority in work place, age, wealth, family name and traditional title. Amongst the five characteristics of high power context society according to Hofstede (1984) vis-à-vis concentration of political power in the hands of the military, history of colonialism, tropical climates, low social mobility, less urbanisation, Nigerian culture can be said to have four of these characteristics which are history of colonialism, less urbanisation, low social mobility and tropical climates.

Second, Sokoya (1998) states that Nigerian culture can be classified as low tolerance for uncertainty and ambiguity. This is because there are folklores and proverbs that discourage ambiguity or taking chances in the Nigerian Society (Sokoya 1998, p. 232). For instance, some of the Nigerian religions are based on fears, and rituals are still practiced to ensure certainty before engaging in some activities.

Third, according to Sokoya (1998) the Nigerian culture is said to have low individualism dimension. This is because in the Nigerian culture, there is emphasis on the family, the extended family and people around some one to provide assistance to themselves when need be. Thus, unlike in the western cultures were every one is independent in their welfare, values and decision making, in the Nigerian cultures, there is reliance on the family and people around someone to provide assistance and support to these issues.

Finally, Masculinity is expected to be high in Nigeria because the Nigerian cultures have a high degree of respect for achievements and material success (Sokoya 1998). This takes precedence from the traditional reward systems of conferring titles and chieftains to men and women who have achieved tremendous success in their material pursuits in life.

From Hofstede original dimension analysis for national culture, Finland was included in the list of countries he analyzed whereas Nigeria was not included. However, with the work of Sokoya (1998), this paper will place an approximate dimension for Nigerian culture in what it deemed the modified version of Hofstede dimension as shown in Figure 11. From this, analysis of cultural distance between Nigeria and Finland will emerge.



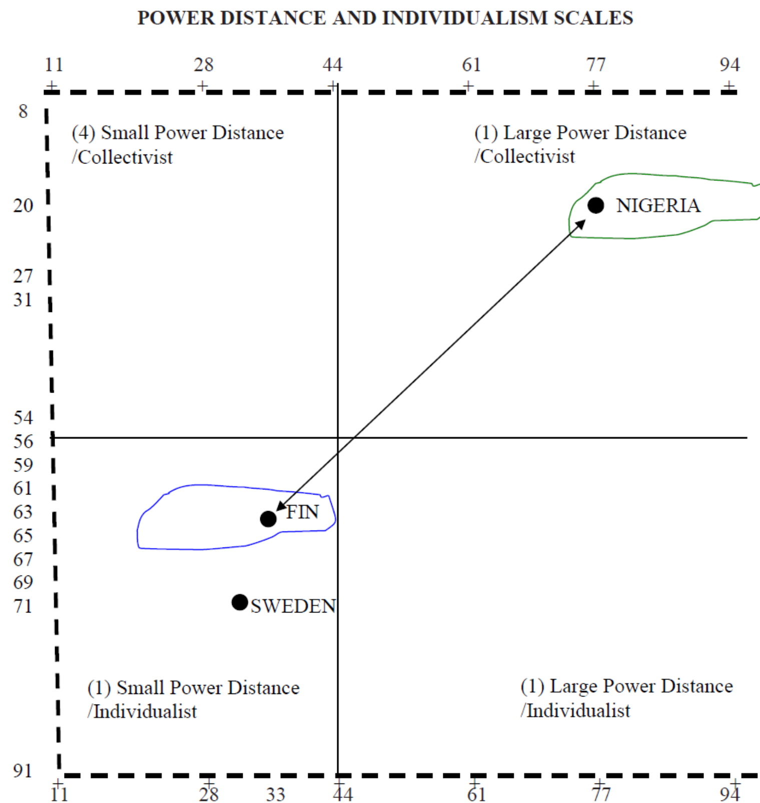


Figure 11. Cultural Distance between Nigeria and Finland (Modified Hofstede 1984)

Note that, the placement of Nigeria on Hofstede dimension in Figure 13 is only a schematic view of what this paper deems should be the position of Nigeria in the Hofstede Cultural dimension based on the study of Sokoya (1998).

From the figure, it is obvious that Finland is classified as small power distance, individualistic and strong uncertainty avoidance culture, while Nigeria is classified as large power distance, collectivist and weak uncertainty avoidance culture. The reason for the small power distance in Finland is thus; in Finland, less powerful members of organisations and institutions (like the family) do not accept or expect that power is distributed unequally. Even though power is not distributed equally in societies, however, in some countries like Nigeria it is more distributed unequally than in Finland.

The reason for the individualistic dimension of Finland is because, in Finland the ties between individuals are loose thus every one is expected to look after himself/herself which is not same in Nigeria where people from birth are integrated into cohesive in-groups, often extended families (with uncles, aunts and grandparents) which continue to protect them in exchange for unquestioning loyalty (Hofstede 1984). Finally, there is tolerance for uncertainty and ambiguity while in Nigeria there seems to be avoidance of uncertainty and ambiguity.

The implication for this cultural distance is that, Finnish companies introducing Finnish-Oriented management theories to Nigeria must be aware of the cultural peculiarities of Nigeria and the cultural difference between Nigeria and Finland. Thus, when attempting to introduce Finnish organisational cultures in Finnish businesses in Nigeria, it will be best carried out through the use of individuals that are familiar with Nigerian cultures (Sokoya 1998). According to him, individuals that are familiar with both cultures will tend to be the early adopters in the diffusion of organisational culture. These individuals can be for example Nigerians that studied in Finland. They will be better to understand, the Finnish culture, which will be foundation for organisational culture of a Finnish firm in Nigeria. As early adopters and as individuals that do understand both the host and home country cultures, they can act as change agents (Sokoya 1998).

2.5 DETERMINANTS OF FDIs

The determinants of Foreign Direct Investment have been discussed in widely read literature. Factors that determine the inflow of FDI into a particular country can be classified into micro-determinants and macro-determinants. The micro-determinants of FDI are mainly concerned with those location specific factors that have an impact on the profitability of FDI at firm or industry level (Krugell, 2005; Wang & Swain 1997). Host country characteristics that influence productivity and cost at this micro-level include market size and growth, labour costs, host government policies and tariffs and trade barriers.

The macro-determinants of FDI are the factors that influence profitability and the choice to invest at an economy-wide level (Krugell, 2005). These are the size and growth of the host market, exchange rates and political stability (Krugell, 2005). Below are the factors the influence the inflow of FDI into a country. This is based on the micro and macro-determinants discussed above and other factors discussed individually by literature that influence the inflow of FDI into a country.

- Market demand and market size
- Infrastructure
- Labour quality
- Labour cost
- The level of scientific research
- Degree of openness
- Political stability
- Exchange rate changes
- Trade Barriers and Tariffs

First, market demand and size refers to the number of buyers and sellers in a particular market. Market demand and size has been said to have positive effect on

FDI because, it directly affects the expected revenue of the investment (Sun et al., 2002). Thus, the larger the market size the more FDI a particular country should attract. Second, agglomeration refers to the concentration and co-location of economic activities that give rise to the economies of scale and positive externalities (Sun et al., 2002). Second, Infrastructure covers many dimensions, ranging from roads, ports, railways and telecommunication systems to institutional development (e.g. accounting, legal services, etc.) (ODI, 1997). According to them, Poor infrastructure can be seen, however, as both an obstacle and an opportunity for foreign investment. For the majority of low-income countries, infrastructural underdevelopments are often cited as one of the major constraints of FDI inflow (ODI 1997). According to them, Surveys in sub-Saharan Africa indicate that poor accounting standards, inadequate disclosure and weak enforcement of legal obligations have damaged the credibility of financial institutions to the extent of deterring foreign investors. Furthermore, Bad roads, delays in shipments of goods at ports and unreliable means of communication have also added to these disincentives (ODI 1997).

Third, labour quality refers to the number of skilled labour in a country. According to Sun et al. (2002), the quality of labour of a particular country should be positively related to FDI. Fourth, labour cost refers to the cost of labour in a particular country. This may be one of the determinants of FDI in a country. On one hand cheap labour has been said to be one of most important factors in absorbing FDI especially in the case of South East Asian economies (Riedel 1975; Young 1978; Majudar 1980; Tsai 1991). On the other hand, several researches have also found negative correlation between labour cost and FDI (Sun et al., 2002).

Fifth, the level of scientific research refers to the level of human capital and general development measured by R&D expenditures and the number of patents in that country (Sun et al., 2002). Sixth, the degree of openness refers to how open a country's economic policy is to foreign capital and foreign investors (Sun et al., 2002). It also refers to Host government policies and location specific factors that may influence profitability and MNEs decision to undertake FDI, in a number of ways (Krugell, 2005). These policies may be in form of incentives and performance requirements or can take the form of hiring and training of local personnel, local content and tax rebates. According to Sun et al. (2002), openness may have positive or negative influence on FDI into a country. For instance, openness can encourage severe competition and may also induce FDI into a country.

Seventh, Political stability refers to be absence of political risks in the country. Political risks refer to political activities within a country that can generate risk for business operations. These are risks that arise from, government policy risk, and social risk (Miller, 1992). High political risks in a country may have a potential to

discourage FDI inflow into the country (Wang & Swain, 1997 p. 702). Eighth, exchange rate changes seem to have dual effect on inflow of FDI. On one hand, devaluation of currency have been said to discourage the inflow of FDI (Scarperland, 1974). On the other hand, it has also been found to encourage the inflow of FDI and discourage the outflow of direct investments (Alexander and Murphy, 1975).

Ninth, Trade barriers and tariffs are also another important factor that may determine the inflow of FDI into a country. According to the "tariff hopping" hypothesis, high protective trade barriers make exports by MNEs to a potential host country, uncompetitive. Thus, in order to avoid this protectionist barriers as well as transport cost reductions, MNEs are encourage to rather enter the market through FDI and to serve their customers with local facilities (Wang & Swain, 1997). Studies on this have been somewhat different. On one hand a negative correlation seems to exist between trade barriers and FDI inflow (Krugell, 2005). On the other hand, other studies have tested the tariff hopping hypothesis and finds the relationship between taxes on international trade and transactions, and FDI, to be positive and significant (Krugell, 2005).

Finally, the factors discussed above influence FDI inflows under certain conditions. For instance, the influence of the location-specific micro-determinants of FDI depends on nature of investments and stage of the product life cycle (Krugell, 2005). According to him, if the investment is for export production, the expected return from a particular site will depend more heavily upon unit input costs. And if the investment is intended to serve the local market, then the size and openness of the market will be of significance. The stage of the product's life cycle refers to weather the product life is between a new, mature or standardised stage. For instance, Krugell, (2005), argued that locations with lower input costs are important when the product is standardised. Thus, a combination of these micro and macro-determinants may incline a firm's interest and encourage them to locate production facilities in a particular country.

2.6 ANALYSING LACK OF FDIS' IN NIGERIA

This section provides an overview of the relevant literature, which relates directly to our stated ten research questions. The purpose of this section is to provide the conceptualisations that give this paper the answers to the stated research questions.

2.6.1 Pattern of Entry into Nigerian Market

The purpose of the first research question is to provide a better understanding of the pattern of entry of Finnish SMEs into Nigerian Market. The reviewed literature provided two dimensions for assessing the pattern of internationalisation of SMEs which are:

- Time of entry pattern (when)
- Market selection pattern (way)

First, Time of entry refers to time lag between the founding of a firm and the initiation of its international operations (Ovaiatt & McDougall, 1994; Knight and Cavusgil, 1996) or the first decision to expand abroad. There is a relationship between time of entry, choice of entry mode and choice of market.

According to Gallego et al. (2009), firms will opt for a particular mode of entry depending on their timing of internationalisation and the geographical distance between home market and foreign market. Thus, the proposition seems not to hold on the influence of certain mediating and moderating variables that influence the perceived risks and the risks that these companies are prepared to assume in their internationalisation process. Time of entry for the sake of the research question, analyzes time of entry of Finnish SMEs into Nigeria referring to the time between the foundation of the company and time of its entry into Nigeria.

The reviewed literature highlighted the determinants of FDI in Nigeria within 1980-2000. Within 1980 to 2000 the determinants of FDI were mainly the market size, low cost of labour, level of openness to the foreign world, level of domestic investment, GDP per capita growth, the level of past FDI in Nigeria, low inflation and high return on natural resources.

Thus, this paper argues that, the availability of certain country specific factors at the time of entry of a firm into a foreign market would make the firm to opt for FDI entry mode rather than less commitment entry modes. In other words, if a certain country does not have in place certain specific determinants of FDI at the time of entry of firms into that market, the firm would opt for less commitment entry mode. In other words, there may be certain mediating and moderating variables that influence the perceived risks and the risks in the Nigerian market during the time of their internationalisation process into Nigeria that may have necessitated them to opt for less commitment entry mode than FDI.

(H_1) *"The purpose of the first research question is to understand why; given the availabilities of FDI determinants within the time of entry of Finnish SMEs into Nigeria; what predicted the choice for low commitment entry modes (exporting & project business) of Finnish SMEs into Nigeria"?*

Second, the reviewed literature discussed three methods utilised by firms when selecting entry modes for various markets referred to as market selection rules. According to Albaum et al., (1998), there are three different rules that can be used when selecting entry modes summarised in Table 2.

Table 2. Rules of Selecting Entry Modes

Naïve Rule	*SME's used theme entry modes for all markets.*
Pragmatic Rule	*SME's use one entry mode for each market and no investigation of the most suitable entry mode is made.*
Strategic Rule	*SME's compare and evaluate all entry modes alternatively before making a decision.*

Naïve rule implies that SMEs use the same entry modes for all markets irrespective of the potential opportunities inherent in the market. Thus, naive rule is inflexible since it prevents companies from exploiting their foreign market opportunities. Pragmatic rule entails that SMEs use one entry mode for each market and no investigation of the most suitable entry mode is made. However, within this rule, SME's do not investigate all entry mode alternatives so the chosen alternative might not be the most suitable. Finally, the strategy rule implies that SMEs compares and evaluates all entry modes alternatively before making a decision.

An analysis of these market selection rules would entail a distinction between firms that have in place the strategic process of internationalisation. Thus, a distinction could be made between export oriented firms and firm whose market entry is based on strategic choice.

"*Thus, the purpose of the second research question is* (H_2) *to understand the market selection rules that are utilised by Finnish SMEs in Nigeria?"*

2.6.2 Reasons for Lack of FDIs in the Nigerian Market

The purpose of the following research question is to provide a better understanding of reasons (apart from firm pattern of entry described above) that necessitates the absence of equity entry modes of Finnish SMEs in Nigeria.

The reviewed literature discussed the resource and commitment factors that may influence entry mode choice of SMEs. The resource and commitment factors are found within a firm and are usually the firm specific advantages that differentiate it from its competitors usually referred to as ownership advantages of the firm. Thus, firm-specific resources or capabilities that provides a unique advantage to the firm (Dunning, 1988, 1993). Resource and commitment factors discussed in the literature review includes (a) technology advantage, (b) firm size, (c) level of international experience and (d) business network

Brouthers et al. 1996; Osborne, 1996 studied the influence of product-specific factors on the internationalisation of SMEs. There study shows that Firms with a higher ability to develop complex technically differentiated products tend to use equity entry modes, while companies selling undifferentiated commodities used nonequity modes. Correspondingly, SMEs offering unique differentiated products tended to prefer equity modes of entry, while firms offering more generic products tended to prefer nonequity modes. Thus, the purpose of the third research question is: (H_3)

"Are Finnish SMEs in Nigeria offering generic products to account for their choice of nonequity modes?

Furthermore, firm size has been shown to limit SME capability for FDI. Thus, SMEs lack the financial and/or managerial resources required to establish and operate an equity entry mode, as a result nonequity entry mode prevails as their choice of entry mode. Thus, the purpose of our fourth research question is: (H_4)

"Does the size of Finnish SMEs in Nigeria limit their accessibility to both managerial and financial capability needed for an FDI mode choice in Nigeria?

Firm's relevant international experience was discussed as a factor that influences SME choice for equity entry mode. Literature review found support that after a period of experimental knowledge in foreign markets SMEs gained experience and moved from exporting to equity investments. International experience is derived from the sum total of both management and organisation experience in doing business in relevant foreign markets. Thus, the purpose of our fifth research question is: (H_5)

"How can the management and organisation's experience of Finnish SMEs be described with respect to its influence on lack of FDI among Finnish SMEs in Nigeria?

Industry factors or advantages may influence the choice of FDI in a particular country. Industry factors includes market size, nature of competitiveness if the industry, demand conditions and growth potential. Thus, a foreign market may provide location advantages to firms due to its market size, demand conditions, nature of competitiveness of the industry and potential for growth (Nakos & Brouthers 1996).

The literature review found support for equity entry mode in industries with high potential growth and SME's preferred nonequity entry mode in industries characterised by low growth potential. However, the ability to reap these potential depends on the knowledge of the firm about the industry in that market and/or the

export intensity of their offerings in that market. Thus, the purpose of our sixth research question is: (H_6)

“How can the growth potential of the industries within which Finnish SMEs operates in Nigerian be described with respect to its influence on the lack of FDI among Finnish SMEs?

High growth industries and large market size in a given market are location specific advantages for firms to seek FDI. However, this does not come without a risk. These risks are found in the foreign country production factors, foreign country general environmental factors and foreign country market factors.

Research involving choice of entry mode found support for SMEs to choose nonequity entry mode into foreign market characterise by high environmental risks or uncertainty while those perceiving less risk would opt for equity modes. Thus, the purpose of the seventh research question is: (H_7)

“How can the environmental volatility nature of the Nigerian market be described with respect to its influence on lack of FDI among Finnish SMEs in Nigeria?

Nigeria and Finland are culturally distant apart. Thus, the cultural distance between Finland and Nigeria has to do with the possible differences existing in relation to the way individuals from different countries observe certain behaviours, which will influence the validity of the transfer of work practices and methods from one country to another (Quer et al., 2007).

Though, Hofstede cultural dimensions on national culture did not provide scores for the Nigerian market, other researches seems to have establish that Nigeria and Finland are culturally apart. Because no scores were provided by Hofstede cultural dimension for the Nigerian market, perceived cultural distance in this case seems to be surrogate measure for the cultural distance between Finland and Nigeria. Literature review found positive correlation between perceived cultural distance and Hofstede cultural scores.

Furthermore, previous research has shown that a greater cultural distance between country of origin and target countries tend to reduce the likelihood of using entry modes that imply a high resources commitment level (Quer et al., 2007). Thus, the purpose of this research question is: (H_8)

“How can the cultural distance between Finland and Nigeria be described with respect to its influence on lack of FDI among Finnish SMEs in Nigeria?

Business networks and its influence on firm internationalisation were discussed in the literature review. Several studies related to internationalisation of SMEs, though varying findings predicted some sort of influence of firms network in their internationalisation process. Internationalised local business network partners influence the firms' internationalisation (Holmlund & Kock 1998; Coviello & Munro 1997). No research has predicted the influence of network on entry mode choice. However, SMEs may internationalise or follow their existing networks (usually MNEs) to be internationalised in order for them to serve their networks better. Thus, the purpose of the ninth research question is: (H_9)

How can the local networks of Finnish SMEs (MNEs, R&D partners, SMEs etc) in Nigeria be described with respect to its influence on lack of FDI?

Fifth, the role of government support programs on internationalisation of SME's has been established in the literature review. However, their support and influence might be of significant contribution at the early stage of internationalisation of firms into foreign market. It seems that literatures have not provided significantly, the influence of government or government support programs on entry mode choice of firms into foreign markets. The Finnish SMEs under research are already internationalised in the Nigerian Market with exporting business and few other contractual entry mode activities. Thus, the purpose of the tenth research question is: (H_{10})

Does government or government support programs influence the reason for absence of FDI entry mode of Finnish SMEs into the Nigerian market?

As summary, the main research question of the thesis is:

How can the factors necessitating the absence of Foreign Direct Investment of Finnish SME's into Nigeria be described?

The ten additional research questions are listed on the next page.

2.7 THEORITICAL FRAMEWORK

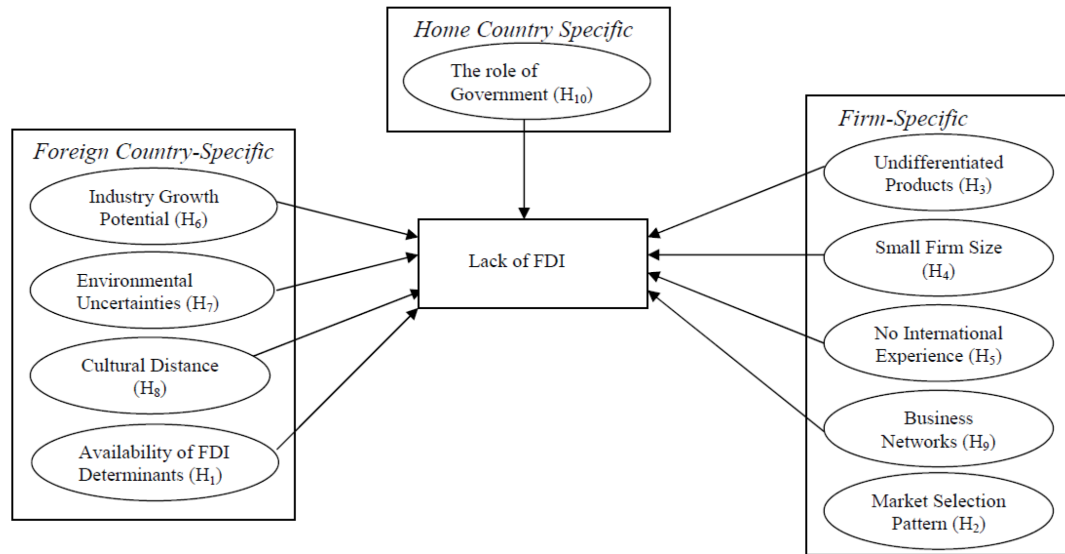


Figure 12. Theoretical Framework (Reasons for Lack of FDI in the Nigerian Market)

(H_1) *"The purpose of the first research question is to understand why; given the availabilities of FDI determinants within the time of entry of Finnish SMEs into Nigeria; what predicted the choice for low commitment entry modes (exporting & project business) of Finnish SMEs into Nigeria".*

(H_2) *"Thus, the purpose of the second research question is to understand the market selection rules that are utilised by Finnish SMEs in Nigeria?"*

(H_3) *"Are Finnish SMEs in Nigeria offering generic products to account for their choice of nonequity modes?*

(H_4) *"Does the size of Finnish SMEs in Nigeria limit their accessibility to both managerial and financial capability needed for an FDI mode choice in Nigeria?*

(H_5)*"How can the management experience and organisation's experience of Finnish SMEs be described with respect to its influence on lack of FDI among Finnish SMEs in Nigeria?*

(H_6) *"How can the growth potential of the industries within which Finnish SMEs operates in Nigerian be described with respect to its influence on the lack of FDI among Finnish SMEs?*

(H_7) *"How can the environmental volatility nature of the Nigerian market be described with respect to its influence on lack of FDI among Finnish SMEs in Nigeria?*

(H_8) "How can the perceived cultural distance between Finland and Nigeria be described with respect to its influence on lack of FDI among Finnish SMEs in Nigeria?

(H_9) How can the local networks of Finnish SMEs (MNEs, R&D partners, SMEs etc) in Nigeria be described with respect to its influence on lack of FDI?

(H_{10}) Does government or government support programs influence the reason for absence of FDI entry mode of Finnish SMEs into the Nigerian market?

3 METHODOLOGY

The previous chapter reviewed literatures relevant to our theoretical framework. This chapter will establish the research method and data collection.

3.1 Research Approach and Methods

The reason for a research approach and method for the thesis is based on the fact that only theoretical approach would not be suitable for answering the research questions and for giving a broad view of the phenomena. Different research approach can be used in industrial management depending on the topic of research. The commonly used research approach in industrial management is shown in Figure 13.

	Theoretical	**Experimental**
Descriptive	Conceptual Approach	Nomothetical Approach Action-Oriented Approach
Normative	Decision-Oriented Approach	Constructive Approach

Figure 13. Research Approach in Industrial Management (Hannula et al., 2003)

From the figure above, the approach of obtaining research information is via theoretical and experimental pattern while the approach of using information is divided into descriptive and normative pattern. According to Hannula et al., (2003, p. 8) theoretical research is used mostly for developing new theories from the existing ones and the empirical research focuses on individual cases. However, both approaches can be used by researches. On one hand, descriptive pattern is used by researches when they want to describe and explain a phenomenon and on the other hand, normative pattern is meant for creating guidelines for developing operations or planning new ones. This research will utilize both research approach vis-à-vis theoretical and experimental.

The theoretical approach will be carried out with concept-analytical research

approach i.e. it will be carried out using books, articles in scientific publications and internet. Through this research approach, the theoretical framework will be established and will be used in the empirical section. The empirical part is completed by conducting a mail questionnaire to Finnish SMEs already operating with non-equity entry mode activities in the Nigerian Market. The questionnaire survey will enable this research to provide quantitative treatments of the respondents answers thus, providing answers to how much, how many and how often (Gummersson 1993, p. 29). While the mail survey provides us with answers they also have disadvantages. For instance, low response rate may reduce the confidence of the result. Questionnaires are unable to probe responses. This is because questionnaires are structured instruments and they have little flexibility to the respondent with respect to response format. Thus they lose the flavour of response. However, by allowing frequent space for comments, the researcher can partially overcome this disadvantage. In other words, they serve as a helping hand for all the information on the questionnaire, thus provide insightful information that would have otherwise been lost.

There are several advantages to using a questionnaire. According to Hirsjärvi and Hurme (1988, p.191), a wide amount of questions can be covered with a rather wide range of questions in a compact time scale. Questionnaires can be accomplished via web-based, emailed and postal questionnaires. However, complex questions are difficult to control in any of these three forms. According to De Vans (1990, p. 80), the following four factors should be considered when developing a questionnaire:

- Selection of the areas to be studied
- Construction of the questions
- Evaluation of the questions
- The layout of the questionnaire

Questions are usually categorized as structured, unstructured, and semi-structured (Gummesson 1993, p. 28). Structured questions are also called formal questions, because they have predetermined response alternatives and thus the responses are closed. Because of this, it is easy to translate the choices defined on the scale into numbers and to analyze the answers with statistical methods (Clark-Carter 1997). Unstructured questions are open-ended and thus more demanding to analyze. Generally, answers to open-ended items demand some qualitative interpretation. However, formal questions are often supplemented with open-ended questions because these add a qualitative touch to the questionnaire (Gummesson 1993, p. 29).

This research is an intense study comprising wide arrays of studies that need intense understanding. In other words, the responses required to provide indebt information required for the thesis would be both structured and unstructured responses. Thus, the questionnaire would be both structured and unstructured.

Furthermore, the general schedule for the masters' thesis is scheduled in Figure 14. The exact dates for the milestones is not stated, however, the study started by defining the subject and scope of the thesis in October 2009.

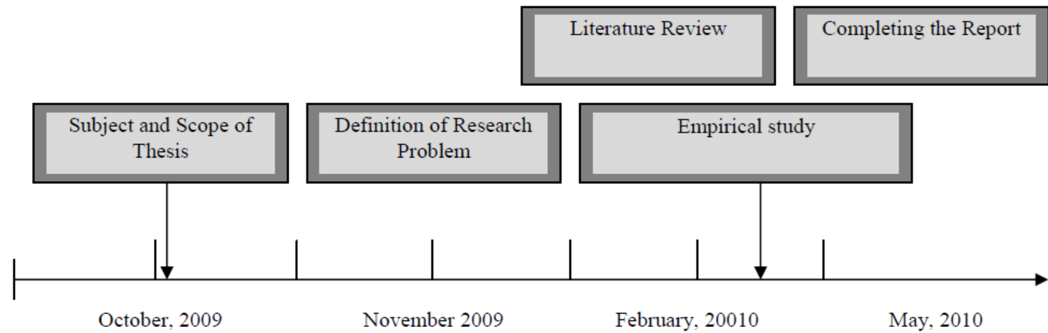


Figure 14. General Schedule of the Masters Thesis Execution

The literature research deals with researching on familiar theories dealing with the scope and subject of the master's thesis. At the end of the literature research and review, theoretical framework will be established which will serve as a tool to enable the empirical study. The empirical study is carried out by mailed questionnaire to thirty Finnish SMEs having operations (Exporting & Project Business) in Nigeria. Finally, in February to April 2010 the thesis writing process was done and in May 2010 the thesis study was completed.

3.2 Data Collection and Reliability

Sample of seventy Finnish companies that have had activities in the West African region was gotten from Finpro database. After careful analysis it was found that some names and company contact appeared twice or even thrice. At the end of the cross selection only 30 firms were said to be in the database. Table 3 shows the questionnaire response data. Questionnaires were administered to the 30 companies through postal mail and paid return envelops. They were given one month response time and after then they were contacted through emails and phone calls to remind those who have not responded.

Table 3. Questionnaire response data

Total Questionnaires Sent	30
Total Responses	7
Refusals	25
Response Rate	23%

Five companies returned the filled questionnaires within two weeks and within the deadline of one month given to them. Two companies returned later after email contact to them. After checking for response bias, it was found out that the last two

responses did not completely fill the questions and in questions were they responded they give a single opinion to all questions. These two questionnaires were taken out leaving the response rate at 17%. However, after contacts with companies that did not respond, most of them said that responded to the later contact said they decided not to respond because there opinion will not matter in the research because they were previously doing business in the Nigerian market, however for some years they have not had any business in the Nigerian market. It is obvious that even the 17% response rate may be less that what the actual response rate should be when taking cognizance of all the firms that said they no longer have activities in the Nigerian market.

According to Carlsson (1998), high validity in a data collection method is based on how well the method measures the variable it is meant to measure. Thus, validity hinges around the extent to which research data and methods for obtaining the data are deemed accurate, honest, and on target (Denscombe 1998, p. 241).

According to Yin (2009 p. 40), there are four kinds of validity: construct validity, internal validity, external validity and reliability. Construct validity measures the degree to which the researcher develops sufficient operational set of measures adequately for the research. The fundamental feature of construct validity is theory (Carmines & Woods 2005b). Thus, construct validity measures the validity of the theoretical frameworks and concepts used in the studies. Internal validity is used mainly for casual studies and explanatory research and thus relates to establishing casual relationships where certain conditions are believed to lead to other conditions. External validity seeks to establish a domain to which the study findings can be generalised and finally, Reliability demonstrates that when different researchers use the same methods to conduct a research they should end up with same conclusions.

The construct validity of this research is increased by the use of multiple sources of evidence. The sources used for this research were previous theories, questionnaires and documentation. The empirical data was gathered through questionnaires written in English and sent to managers or persons responsible for decision making in internationalisation into the West African market. Furthermore, the construct validity was increased by first conducting an interview with one of the firms included in the mail survey to investigate how responses may be inflexible with the kind of responses demanded in the questionnaire. This interview enabled us to construct a viable questionnaire that would include the right options and right responses. Lastly, the construct validity was also increased by developing the questionnaires based on literature review and theoretical framework.

Internal validity was increased by comparing the gathered empirical data against each other and to previous theories. Our external validity was increased by the multiple case studies that were carried out. Finally the response rate of 17% was received from

the mail survey this was deemed reliable in comparison to other mail survey rates.

3.3 Variables and Measures

3.3.1 Dependent Variable

The depended variable for this study is the mode of entry chosen by an SME into the Nigerian market. The information about the mode of entry was obtained from pre investigation sent to all the SMEs asking them to identify their mode of entry into the Nigerian market. Also, in the questionnaire, this question was included. Within the five firms whose responses where considered, four out of five had exporting as their entry mode while only one had project business. However both project business and exporting are non-contractual entry mode choice. Because the study intend to find out the reason for lack of FDI, the paper assumes that 'if all things been equal or all conditions necessary to attract FDI are in place in the Nigerian market at least a given SME will have FDI in the Nigerian market. It was necessary to make this assumption in other to enable us use binary logistic regressions analysis to find out what independent variable predict the reason for exporting than FDI. The use of Binary logistic regression is in line with most previous entry mode research (e.g Kogut & Singh 1988, Nakos & Brouthers, 2004).

Furthermore, in consistent with previous research for instance (Kwon & Konopa, 1993; 1993; Pan & Tse, 2000), entry modes have been categorised into two types:

- Market based nonequity modes (licensing, subcontracting, and exporting, etc.)
- Hierarchical based equity modes (FDIs).

Recall that we define FDI in the introductory chapter to include both joint ventures and wholly owned subsidiary. Furthermore, the use of dichotomous entry mode variable i.e. equity vs. nonequity is in consistent with Pan and Tse (2000), that this method shows the significance of many determinants impacting entry mode choice that otherwise would failed to register as significant within more differentiated classification schemes. Thus, in this study, the dependent variable was coded as follows:

- 0 = equity entries (FDIs)
- 1 = nonequity entries (export, project business, etc)

3.3.2 Independent Variables

First, cultural distance was one of the independent variables for this study. This study utilised the perceived measure of national cultural distance as shown in the questionnaire since Hosftede scores are not available for the Nigerian market. This

was done in accordance with Bell (1995) and Drogendijk & Slangen (2006). Thus, managers were asked to rate on a 5 point linkert scale how large their management team perceives the cultural differences between Finland and Nigerian market.

Second, firm size was also another independent variable for this study. Previous studies have somewhat used annual sales, number of employees world wide and/or sales volume to depict firm size. Hence this study is focused on the SMEs, we used surrogate measures based on the perception of the managers on the limitation of their firm size as a strategic reason for lack of FDI in the Nigerian market. To do this, managers were asked on a five point linkert scale if the reason for lack of FDI as an entry mode choice for the Nigeria market is as a result of their firm size.

Third, the level of international experience was identified utilising several theoretical frameworks to include among others; number of years of business activities in Nigerian market (Drogendijk & Slangen, 2006). Number of years of business activities and entry mode choice in psychically close countries to Nigeria (Ghana, Nigeria and Sierra lone having psychic distance of 4.2, see Dow & Larimo (2007)) and Management & Organisational characteristics, see Fletcher (2000) for an overview. The managerial and organisational characteristics were used to measure the willingness of managers and organisation for investment in a target market. This is also in support of Nakos and Brouthers (2002) that SME researchers may want to include a measure of managerial willingness to invest as part of future SME international entry mode selection studies. Based on their responses, a proportional experience level was given to them on a linkert scale of 0 (no experience) to 6 (Very high experience).

Fourth, business network was identified by utilising the studies of Smilor & Grill (1986) framework on SME business network. No research has posited the influence of business network on entry mode choice. However, researches have somewhat laid emphasis that business network influence SME internationalisation. The SME business network was chosen to determine how the business network of these Finnish SME are oriented towards the psychically close countries to Nigeria highlighted previously. This is because if the networks are oriented strongly towards the West African market, they would tend to follow their network to internationalise into the Nigerian market and in order to serve them better after years of exporting, they would seek for more resource commitment entry for the Nigerian market.

The questionnaire asked the managers to explain if they have their local business networks (SMEs, MNEs, Universities, public organisation etc) active with any entry modes in the Nigerian market. From there responses appropriate measures where given to the companies on a linkert scale of 1(Not oriented business networks towards Nigeria) to 5 (Highly oriented business networks towards Nigeria).

Fifth, the rate of technological advantage the firm or ability to produce differentiated product was by asking the managers to identify what kind of products they offer in the Nigerian market. The products were classified in line with Luostarinen (1979, p. 96), classification of products into Goods, Systems, Services and know-how. Also, the managers were asked about their ability to produce differentiated products. This was in all measured with 2 point Likert-type scale 1(Undifferentiated products) to 2(Highly differentiated Product).

Sixth, the industry growth potential was derived on a linkert scale of 1(unknown) to 5 (very large) by asking the managers to describe the industry characteristics of their offerings in the Nigerian market. Measures used were market size, competitiveness, demand conditions and growth potential.

Seventh, volatility rate of the Nigerian market was measured from a compilation of environmental uncertainty measures provided by Dichtl & Köglmayr (1987, p. 113) and Miller (1992). Managers were asked to rate on a 5point linkert scale (very small) to (very high) the effects of any of these environmental uncertainty measures on their reasons for lack of FDI in the Nigeria Market. Finally, the role of government was measured by asking SME managers if government provides any support for their market entry into the Nigerian Market.

3.3.3 Other Measures

First, this study argued that there seems to be special policies, incentives and other vital variables that determine FDI entry into a country. The literature discusses determinants of FDI. The study relates the time of entry of Finnish SMEs and the determinants of FDI in place at that time. Thus, if the determinants of FDI were not available in the Nigerian market at the time of entry, Finnish SMEs may opt for less commitment entry mode.

To measure the determinants of FDI in place at the time of entry of Finnish firms into Nigeria, a Likert scale from 1(very small) to 5 (very large) was made. First, Finnish managers were asked to state the age of their firm, time of entry into international market and time of entry into Nigerian market. Accordingly, they were asked to fill a PESTL framework within 1980-2000 and within 2001-2010. The PESTL framework highlights all the determinants of FDI based on literature review. The study tries to benchmark the determinants of FDI in China relative to Nigeria. Thus, SMEs with FDI's in the Chinese market within that period were also asked to provide reasons (using the PESTL framework) why they ventured into China.

Finally, market selection rules (market selection pattern) of Finnish firms were measured in accordance to Albaum et al. (2008). Thus, managers were asked to

choose from Naïve rule, pragmatic rule and strategic rule as their market selection pattern into foreign markets.

3.3.4 Limitations

This study suffers from a number of limitations. One of the limitations was that the response rate was 17.5%. Also, the response rate for the FDI determinants was from one firm out of the five firms considered. A second limitation of the study is that the entry modes were divided into two broad categories, equity and nonequity. This may mask other potential differences that may exist among various equity entry modes (Pan & Tse, 2000; Contractor, 1984; Kwon & Konopa, 1993). The reason for this choice was that there was no response that indicated other entry modes and as such putting this into consideration will have no statistical significance.

Furthermore, another limitation of this study was finding adequate literatures about the Nigerian Market. Because the study was not funded, it was difficult getting access to literatures describing the industries dynamics in the Nigerian market and the potentials inherent in them.

4 RESEARCH RESULTS AND ANALYSIS

4.1.1 Determinants of FDI in China (1980-2000)

When China enacted and implemented economic reforms in 1978, it necessitated open door policy for western investments. This wide-range economic reforms in china generated greater investor confidence in the growth and credit worthiness of the transforming Chinese economy (Wang & Swain 1997, p. 717). According to National Bureau of Statistical data China (2002), since 1978 the Chinese market has attracted more than US500billion FDI. Under the open door policy of the Chinese government, special economic zones, open coastal cities, open delta economic zones, and open coastal economic zones were designated as areas where foreign joint ventures received various fiscal incentives and operating privileges (Head and Ries, 1995). According to them, the promulgation of the Provisions of the State Council for the encouragement of Foreign Investment in late 1986 gave inland cities authorities to also offer incentives to technologically advance and export oriented foreign joint ventures.

Wang & Swain (1997) studied the determinants of inflow of foreign direct investment in China and found out that, variables such as size of the Chinese market as measured in the level of GDP, the low cost of labour (wages) and favourable exchange rate were factors that determined foreign direct investments into China by western firms within 1978-1992. According to them, there was relatively weak correlation between cheap labour and FDI inflows. Thus, the attraction of cheap labour has been gradually decreased and factors such as wider selling possibilities, the economic atmosphere, technical developments and highly skilled labour attracted FDI more than cheap labour and raw materials. Similarly, Sun et al. (2002) studied the determinants of foreign investments across China within 1986-1998 and found out that the determinants of FDI across China are low cost labour, GDP, labour quality, good infrastructure, political stability and openness to the foreign world. According to them, the low cost labour was said to have motivated foreign direct investment before 1991 and after that year its effect has been highly negative.

Xing, (2006) studied why China is so attractive for FDI within 1981-2002 and found out that exchange rate policy, market size and growth rate are important determinants of FDI in China. According to him, the devaluation of the Chinese Yuan (Reniminbi) and the policy of pegging the Yuan to the dollar both improved China's competitiveness in attracting Foreign Direct Investment. Thus, the Yuan's cumulative devaluation created wealth and production effects, and contributed to the surge of FDI inflows the determinants of the location of foreign direct investment in China (Xing, 2006).

Awokuse and Yin (2009) studied intellectual property rights protection and the surge in FDI in China within 1992-2005 and found out that market size, regional integration, and transportation and trade cost are important determinants of FDI in China.

Furthermore, Du et al (2008) studied the impacts of economic institutions on FDI location choice in China for US firms within 1993-2001 and found out that, there are varying differences in market challenges such as intellectual property rights protection, government intervention in business operations, government corruption, and contract enforcement across regions in China. According to them, US multinationals preferred to invest in those regions of China that have a better protection of intellectual property rights, a lower degree of government intervention in business operations and a lower level of government corruption. This suggests the importance of Property rights protection in determining the location of FDI in the Chinese market (Du et al., 2008). Thus, at a macro-strategic level and to a greater extent, intellectual property right protection seems to be a determinant of FDI in China. This implies that, if there were totally no intellectual property rights protection in all regions in China the number of US FDI's in China may be less than what they are presently.

Also, Keith and Ries (1996, p. 55) studied inter-city competition for foreign investment: static and dynamic effects of China's incentive areas. They developed a monopolistic-competition model which predicted that agglomeration economies, presence of infrastructures, labour market conditions and government incentive policies attracted FDI into the Chinese market. Furthermore, they found out that, the presence of local specialised suppliers who entered the market due to initial foreign investments in China will influence subsequent foreign investments. Thus the presence of specialised suppliers is one of the factors that will encourage FDI investment into a country. Thus far, this section has explored literature findings on determinants of FDI inflow into China within 1980-2002.

4.1.2 Determinants of FDI in Nigeria

Nigeria has been confronted with decades of undemocratic governance for the past 3 decades. Successive governments within these periods viewed FDI as a vehicle for political and economic domination which led to promulgation of laws restricting foreign investments (Ayawale 2007 p.10). According to him, the government enacted Nigeria Enterprise promotion decree (NEPD) in 1972 geared towards indigenization and to regulate FDI rather than promote FDI. The Indigenization policy (NEPD) was meant to limit foreign equity participation in Nigerian business to 40% (Ayawale 2007 p.10). Hence, within 1972 to 1995, official policy towards FDI was restrictive.

The period from 1995 and above saw a lime light and openness of the Nigerian Government towards foreign investments. For instance, the Nigeria Enterprise Promotion Decree was repealed and the Nigeria Investment Promotion Council was set up which provided for foreign investor to set up a business in Nigeria with 100% ownership. Furthermore, in 1999, export processing zones EPZ was set up allowing interested persons to set up industries and businesses within demarcated zones, particularly with the objective of exporting the goods and services manufactured or produced within the zone (Ayawale 2007 p.11).

Generally, from 1999 several policies have been put in place by the Nigerian administration to attract foreign investments such as investment incentive strategy, non-oil export stimulation and expansion, the privatization and commercialisation programmes, and the shift in macroeconomic management in favour of industrialisation, deregulation and market-based arrangements (Ayawale 2007 p.11). While, the Nigerian government policies have been changing over time, the number of FDI in Nigeria has also be changing accordingly. Nigeria is one of the largest beneficiaries of FDI in Africa as shown in Table 4. Despite been one of the greatest recipient of FDI in Africa, inflow of FDI to Nigeria has been traditionally concentrated in the extractive industries as shown in Table 5.

Table 4. Nigeria: Net Foreign Direct investment inflow in US$ million (UNCTAD)

Year	Africa	Nigeria	Per cent of Africa
1980	392	-188.52	
1990	2430	588	24.19
1995	5119	1079	21.07
1997	10667	1539	14.43
1998	8928	1051	11.77
1999	12231	1005	8.22
2000	8489	930	10.96
2001	18769	1104	5.88
2002	10998	1281	11.65
2003	15033	1200	7.98

Table 5. Sectoral composition of FDI in Nigeria, 1970-2001(CBN, 2002)

Year	Mining & quarrying	Manu-facturing	Agri-culture	Transport & commu-nication	Building & cons-truction	Trading & business	Miscel-laneous services
1970-1974	51.2	25.1	0.9	1.0	2.2	16.9	2.7
1975 – 1979	30.8	32.4	2.5	1.4	6.4	20.4	6.1
1980 – 1984	14.1	38.3	2.6	1.4	7.9	29.2	6.5
1985 – 1989	19.3	35.3	1.4	1.1	5.1	32.6	5.2
1990 – 1994	22.9	43.7	2.3	1.7	5.7	8.3	15.4
1995 – 1999	43.5	23.6	0.9	0.4	1.8	4.5	25.3
2000 – 2001	30.7	18.9	0.6	0.4	2.0	25.8	21.5
1970 – 2001	30.3	32.2	1.7	1.1	4.7	19.1	10.9

From the table, agriculture, transportation and communications, and building and construction seem to remain the least attractive hosts of FDI in Nigeria. However, according to CBN (2004, p. 72), the transportation and communication sector have presently attracted a good number of FDI and the Nigerian market is seen as one of the fastest growing mobile phone market in the world. Furthermore, despite the large contribution of the oil sector in Nigeria, the non-oil sector has been growing. For instance, the non-oil sector in 2005 and 2006 contributed to 8.6% and 9.8% of the Nigerian GDP respectively. According to the OECD figures, leading non oil sector are the telecommunications, general commerce, manufacturing and agriculture. According to them, the oil sector contributes to 31.7% of GDP and the manufacturing sector grew to 9.9 in 2007.

Several studies have been undertaking on the key determinants of FDI in Nigeria. For instance, Ibrahim and Saidat (2008) studied the determinants of foreign direct investment in Nigeria within 1970-2006 and found out that market size, real exchange rate and political factors influence the inflow of FDI into Nigeria. According to them, the Nigerian market needs to aim for a higher market size as they seek to encourage more FDI inflow into Nigeria. Also, they emphasized the political instability of the country as a major factor that hinders the inflow of FDI into the country. Thus, even though there seems to be inflow of FDI into the country, the influx would have been greater if the Nigerian political environment was stabilised.

Also, Krugell (2005) studied the determinants of FDI in Sub-Sahara Africa within 1980-1999 and found out that the reason for FDI inflow in some Africa countries are: (a) Low inflation and less uncertainty, (b) The level of domestic investments, (c) The level of economic openness, (d) GDP per capita growth, and (e) The level of past FDI in the country. According to him, an environment with low inflation and less uncertainty will attract FDI than the converse. Also, according to them, domestic investment attracts FDI by increasing the productive capacity of the economy and Past FDI flows are a positive and significant determinant of current FDI flows into most African Countries. Thus, level of FDI inflow is a function of domestic investment in the country and the type of FDIs already in the country is a determinant of other FDI inflow into that country.

Furthermore, the low uncertainty nature and level of openness referred above is relative. For instance, Nigerian market may be conducive for FDI than the Congolese market however; in world standard the Nigerian market may seem not to be a general conducive and friendly business environment due to its relative risks. Also, within the period of the research captured by Krugell, Nigeria was still under military junta thus, the policies at that time may be open to some certain level probably to certain industry and business types especially in the extractive industry, however, in other industrial segments it maybe restrictive. For instance, policies that were restrictive

within that time include the Enterprise promotion decree (NEPD) in 1972 geared towards indigenization and to regulate FDI and limit foreign equity participation in Nigerian business to 40% (Ayawale 2007 p.10). According to him, within 1972 to 1995, official policy towards FDI in Nigeria was restrictive. Thus, this research will not consider adequate business environment as a determinant of FDI in Nigeria, however, will consider a partial degree of openness as a determinant of FDI inflow into Nigeria especially from 1980-2000.

The Overseas Development Institute (1997**),** studied foreign direct investment flows to low-income countries within 1975-2000 and found out that, FDI in low-income countries has been highly concentrated in three countries, China, Nigeria and India. According to them, large market size, low labour costs and high returns in natural resources are amongst the major determinants in the decision to invest in these countries. Similarly, Oke (2007) studied the determinant of Foreign Investment in Nigeria (1984-2003) and found out that; implementation of sound macroeconomic policies in the areas of fiscal, monetary, trade, and exchange policies; reduction of the debt overhang; deregulation and liberalization of economic policies; removal of trade and capital controls; increased openness; investment promotion and increased investment incentives; and a resolute attempt to promote political and social stability were determinants of FDI inflow in Nigeria.

4.1.3 Determinants of FDI: Benchmarking China and Nigeria

The previous section discussed the determinants of FDI in Nigeria and China. There seems to be common and different determinants of FDI in the Chinese and Nigerian Market as shown in Figure 12.

It is somewhat difficult to make a generalised view of determinants of FDI within 1980-2000. This paper assumes that within 2000 to 2009 a lot of changes have been put in place in the Nigerian economy considering the inception of the democratic government in 1999. Also, it assumes that the Chinese economy attracted FDI within 1980's from the inception of its open door policy and political cooperation with the outside world which may not seem to be present in the Nigerian market as at that time. However, the democratic regime in Nigeria may have presently put in place most of the factors that necessitated FDI into China in 1980's.

Literature has not captured exactly determinants of FDI before the democratic rule in Nigeria (before 1999) and post democracy period (2000-till date). Most literature on determinants of FDI as could be seen in 4.5.1 and 4.5.2 were within 1980's to 2002 thus capturing the period of military junta in Nigeria and period of democratic rule in Nigeria. Thus, this section will only utilise literature on determinants of FDI in China and Nigeria within 1980-2000 to understand the determinants of FDI in China and

Nigeria as at that time. Thus, from the literature review in section 4.5.1 and 4.5.2, only research by Krugel 2005, Overseas Development institute 1997, Wang & Swain 1997, Sun et al 2002 and Keith & Ries 1995 would be utilised to understand the determinants of FDI in China and Nigeria as at 1980-2000.

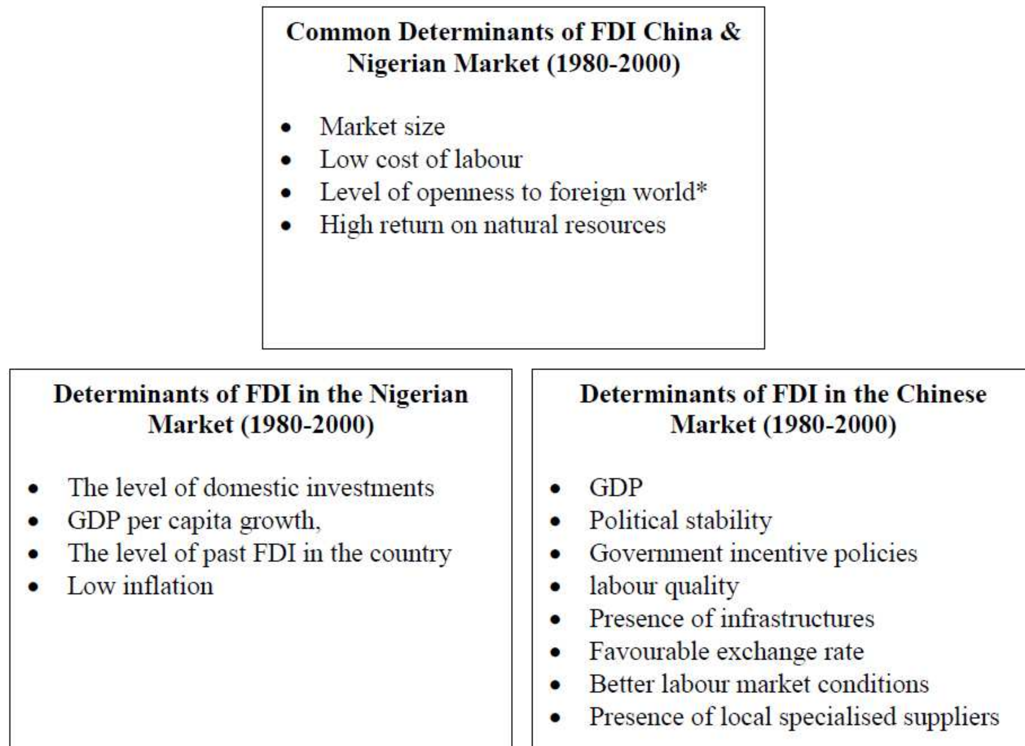


Figure 15. Determinants of FDI: Nigerian and China 1980-2000 (Krugel 2005; ODI 1997; Wang & Swain 1997; Sun et al. 2002; and Keith & Ries 1995)

Most of these determinants in Figure 15 are self explanatory, thus only the most important determinants will be discussed. First, the common determinants why foreign firms sought FDI in China and the Nigerian Market were as a result of large market size, low cost of labour, openness to the foreign world and presence of natural resources. However, most of these common determinants may be more advantageous in the Chinese market than the Nigerian market and verse versa depending on the firm specific factors and product factors. Also, the degree of openness is somewhat different as could be seen with an asterisk in the figure above. Implying that the Nigerian market as at that time was partially open to foreign investment, and in some cases totally restrictive.

Second, the specific determinants of FDI in the Nigerian Market are; the level of domestic investments, GDP per capita growth, the level of past FDI in the country and low inflation. Third, the specific determinants of FDI for the Chinese market are; GDP, labour quality, presence of infrastructures, better labour market conditions, and presence of local specialised suppliers. This implies that the Chinese market has more specific advantage in attracting FDI than the Nigerian market as at that time due to

the presence of more market infrastructures, degree of openness, government incentives, political stability and labour market conditions.

Furthermore, the above discussions were meant to capture the situation in Nigeria and China within 1980-2000. However, since the inception of the democratic rule in 1999 till date economic reforms and open door policy has been the centre of all economic agenda in Nigeria. NIPC 2009 summarised ten reasons to invest in Nigeria as shown in Figure 16.

Abundant Resources	Mineral resources, Agriculture and Human resources
Large Market Size	A population of 160million and growing market potential into West Africa sub-region
Political Stability	Political Stability
Free Market Economy	Government have put in place policies and programs that guarantee free market economy
Robust Private sector	The private sector is robust and has assured greater responsibilities under the new economic environment
Free flow of investment	Exchange control regulations have been liberalized to ensure free flow of international finance. Unrestricted movement of investment capital.
Attractive incentives	A package of attractive investment incentives have been put in place to attract investments
Easy Access	A well developed banking and financial sector. Investors have easy access to credit facilities and working capital
Skills and low cost labour	Abundance of skilled labour at an economic cost resulting in production cost which are among the lowest in Africa
Infrastructure	Rapid development of physical and industrial infrastructure such as water supply, transportation, communications and electricity

Figure 16. Ten Reason to Invest in Nigeria (NIPC, 2009)

Figure 16 shows that the economic situation in the Nigerian economy is improving when compared to the situation in 1980-2000. Thus, most of the reasons why firms invested in China as at 1980 to 2002 could already been seen present in the Nigerian market.

4.1.4 PESTEL Analysis: Nigeria and China (1980-2000)

The determinants of FDI in Nigeria and China have been summarised in Figure 4.5.3. This section shall utilise PESTEL framework to analyze the Nigerian and Chinese business environment between 1980 and 2000 and the Nigerian business environment between 2000 till date based on the literature review on the determinants of FDI in

China and Nigeria. The environmental conditions in the PESTEL framework will not be given consideration for the sake of the scope of this thesis.

PESTEL analysis is a tool used to survey macro environmental conditions such as political conditions, economical conditions, socio-cultural conditions, technological conditions, environmental conditions and legal conditions. Political conditions refer to the degree a government intervenes in the economy. These may include factors such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Economic conditions are factors such as economic growth rate, interest rates, exchange rates and the inflation rate of a country. Social-cultural conditions include the cultural aspects of the country as well as its population growth rate and age distribution. Technological conditions include aspects, such as R&D activity, level of industrialization, degree of automation, technology incentives and the rate of technological change.

Finally, legal conditions are related to the level of laws in a country and if it complies with international standards. Such laws include health and safety law, discrimination law, consumer law, antitrust law and employment law.

Table 6 below shows the PESTL analysis of China and Nigeria within 1980 -2000 and the situation in Nigeria from 2000 till date. This analysis has not changed the situation as discussed in determinants of FDI. However, the purpose of providing this framework analysis is to provide a bigger picture that will be utilised as a tool in the empirical analysis. Thus, the determinants of FDI were classified accordingly in their respective domain within PESTL framework.

Table 6. PESTL Analysis Nigeria and China (1980-2000), & Nigeria (2000 till date)

Political Condition	China	Nigeria	Nigeria after 2000
• Labour law			
• Environmental law			
• Absence of trade restrictions	✓	❖	✓
• Tariffs	✓		✓
• Political stability	✓	❖	✓
• Tax policies	✓		
Economic Condition			
• Econ. growth rate	✓	✓	
• Interest rates			
• Exchange rates	✓		✓
• Inflation rate		✓	
Social Condition			
• Pop. growth rate	✓	✓	✓
• Age distribution	✓	✓	✓
Technological			
• Level of R&D			
• Industrialisation			
• Automation level			
• Tech-Infrastructures	✓	❖	✓
Legal Conditions			
• Health & safety law			
• Discrimination law			
• Consumer law			
• Antitrust law			
• Employment law			

❖ Absent or not in adequate to necessitate FDI

❖ Present and adequate in the country to necessitate FDI

▭ No findings based on literature reviewed

The purpose of the first research question (H_1) was to understand why; given the availabilities of FDI determinants within the time of entry of Finnish SMEs into Nigeria; what predicted the choice for low commitment entry modes (exporting & project business) of Finnish SMEs into Nigeria.

From the survey response only two of these firms gave responses for the PESTL framework analyzing the determinants of FDI. Most of the managers said they don't have knowledge about these periods mainly because they may have not been in the decisions making positions at that time when these strategic decisions were made. The motive of this analysis was to understand the manager's perception about the

market situation of Nigeria within 1980-2000 and within 2001-2010 as a result this was not considered in the logical regressions analysis. If the conditions were not so good at the time of entry that made them opt for export, if the conditions are same till date, it may however, influence their decisions not to consider FDI. Depending on what the specific reasons are, the firm may have also acquired knowledge and experience about the hurdles at that time and may decide to opt for FDI in these later years.

Table 7. Questionnaire Response for firms B and firm E. PESTL analysis of Nigeria 1980-2000 and 2001-2010.

Firms	1980-2000	2001-2010
A	PESTL-low and the same *(Economic growth rate on the rise)	PESTL-low and the same *(Economic growth rate on the rise)
B	Politically-low Economic growth rate-small Technologically-low	Politically-unknown Economic growth rate-small Technologically-low *(little improvements in the level of industrialisation) *(level of technological infrastructures- unknown)

From the responses of the two firms, Firm E was of the opinion that the situation in the Nigerian market within 2001-2010 is still the same as it was within 1980-2000. The situation according to them was that all the variables of political, economical, social, technological and legal condition could be described as been small to warrant their firm's choice for FDI into Nigerian market. However, they remarkably pointed out that Nigeria has had a high growth rate within these years under study. The second firm, Firm B was of the opinion that while the political situation within 1980-2000 was small to warrant an FDI from their firm, they seem not to know the political situation in the country within 2001-2010. Economically, growth rate is small and has remained the same. Populations growth rate have remarkably increased. Technologically, while the level of R&D, industrialisation and automation level is very low within 1980-2000 there seem to be little improvements for industrialisation within 2000-2010 and within the same period the level of technological infrastructure is unknown.

Also, out of the two firms that gave response for PESTL analysis, only Firm B has FDI operations in China and thus gave response as regards PESTL analysis for the Chinese Market 1980-2000. From their response, the reason why they ventured into the Chinese market with FDIs within this period is because of: Tax policies which created incentives for FDIs, economic growth rate was high, large market size, reduced tariffs, low exchange and interest rates, low inflation, high industrialisation,

and presence of technological infrastructures needed for the firm's processes. This supports among others, that the Chinese market size was encouraging for FDIs, the state of industrialisation in the Chinese market was fast growing and that the Chinese government put in place several economic policies aimed at encouraging FDIs.

Furthermore, Figure 17 shows information gathered pertaining age of firms and time of entry into foreign markets and the Nigerian market.

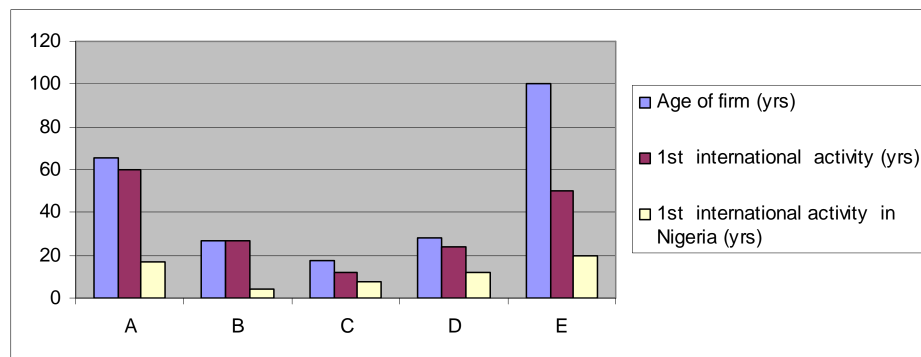


Figure 17. Graph of age of firms and year of internationalisation

The graph above shows the age of the firms (A-E) and the year of their first international activity as well as the age of their international activity in the Nigerian market.

The result shows that there is a positive correlation between the age of the firm and the age of their first international activity as well as market entry in the Nigerian market. Thus, the older the firm, the earlier they ventured into international market. Also, the older the firm, the earlier they entered into the Nigerian market. Correspondingly, the earlier they ventured into international market the earlier they ventured into the Nigerian market. furthermore, from figure it is obvious that entering into the Nigerian market was within 20 years ago and last four years ago, thus within 1990-2006. Five of these firms have exporting as their entry modes into Nigeria. Literature has not provided a determinist number of years of entry mode (nonequity) that would provide adequate experiential knowledge needed for other high commitment entry modes (equity modes). Thus, it is somewhat difficult to conclude if the number of years of some of theses firm in the Nigerian market is enough to gain adequate experiential knowledge needed for an FDI.

The purpose of the second research question (H_2) is to understand the market selection rules that are utilised by Finnish SMEs in Nigeria. Also, the purpose of the third research question (H_3) was to understand if Finnish SMEs in Nigeria are offering generic products which could account for their choice of nonequity modes. These two research questions will be addressed below.

Table 8 shows the product classification, mode and market selection pattern of firms. Looking at the selection pattern of entry for the firms, Firm A, Firm B and Firm E utilise strategic rule when entering into foreign market. The implication of this is that these firms evaluate the possibilities for FDI in the Nigerian market, however, after considerations; some factors necessitated them not to enter into the Nigerian Market with FDI thus, opted for exporting.

Table 8. Product Classification, Mode and Market Selection Pattern

Factors Firms	Product Classification	Mode of Entry	Business Segment	Market Selection Pattern
A	Goods	Exporting	Consumer	Strategic rule
B	Systems, goods, services	Exporting	Service Industry	Strategic rule
C	Systems	Exporting	Manufacturers	Pragmatic rule
D	Systems	Exporting	Service Industry	Naïve
E	Goods & Systems	Exporting	Service Industry	Strategic rule

The factors necessitating the decision for exporting may be because the nature of their product (service, goods, systems, know how) or because of other variables that would be discussed later. From Table 7, Firms C and D are exporting in the Nigerian market. They utilise pragmatic rule and naïve rule respectively, implying that they do not investigate the possibilities for other entry modes in a country. These firms began their internationalisation activity in Nigeria due to contacts from agents in Nigeria for the specific entry modes required for the nature of the business transaction or by seeking out for agents for the sole purpose of exporting their offerings.

It is difficult to draw conclusions on how firms' market selection rule and product classification affects entry mode selection into a foreign market. However, the implication of this discussion is that some firms explored the possibility for FDI in the Nigerian market but choose to export. Whereas some firms (C & D) abi inito did not have in place the strategic process to decide the possibility for FDI into the Nigerian market. Thus, the decision of firms to enter into foreign market with entry mode of FDI's should only be for those firms that have the strategic process in place in their organisation. In other words, only firms that have the strategic process in place may provide adequate external reasons or synchronisation of internal and external reasons why they choose one entry modes over the others. However, from other point of view, it is possible that other internal issues to firms such as the nature of their product (undifferentiated product offerings), amount of resources, management orientation may warrant a firm not to, at first place, put in place the strategic process or mechanism to make decisions on entry mode choice for each

market of entry. The next discussions will be used to address specifically research questions (H_4-H_{10}) respectively.

Appendix 2 shows the binary logistic regression for dependent variable entry mode and independent variables. Binomial logistic regression allows for the prediction of a binomial variable from a set of non-interval predictors. The predictor variables included in this analysis were: (Perceived cultural distance)-norms & values, habits & customs, behaviours, business practices organisational practices, difference in language, difference in ways of communication, relationship with people.

For the general environmental challenges the predictor variables were: (Market infrastructure)-intellectual property right (IPR), transportation infrastructures (TP), skilled labour (SI), reliable power supply (RPS), ICT technology & access (ICT), ports and logistics(PLS); (Social uncertainty)-disruption of business (DB), terrorist movements (TM), unrest and social conflict (USC), kidnap of foreign workers (KFW); (Administrative uncertainty)-bureaucracy, corruption and bribery(CB), poor government regulations (GR); (economic uncertainty)-interest rates, inflation, exchange rate fluctuation (ERF), import ban & trade tariffs (IBTF); (Legal uncertainty)- general legal requirement (GLR), legal enforcement of contracts (LEC); (Political uncertainty)-war & revolution, Coup d'etat, democratic changes in government(DCG) and Political turmoil.

The other predictor variables are: (Industry growth characteristics) - growth potential, market size, competitiveness, demand conditions; Firm size; International experience; Business network and Undifferentiated product nature.

From the binary logistic regression in appendix 2, using our *a priori* value of 0.10, the following were statistically significant predictors: (Norms, $p = 0.098$), business practices ($p = 0.058$), organisational practices ($p = 0.031$), communication style ($p = 0.030$), nature of relationships with people ($p = 0.050$), intellectual property right (IPR, $p = 0.028$), transportation infrastructures (TP, $p = 0.028$), skilled labour (SI, $p = 0.090$), reliable power supply (RPS, $p = 0.030$), ICT technology & access (ICT, $p = 0.028$), ports and logistics (PLS, $p = 0.021$), disruption of business (DB, $p = 0.060$), terrorist movements (TM, $p = 0.050$), unrest and social conflict (USC, $p = 0.063$), kidnap of foreign workers (KFW, $p = 0.068$), bureaucracy ($p = 0.028$), corruption and bribery (CB, $p = 0.060$), poor government regulations (GR, $p = 0.025$), interest rates ($p = 0.058$), inflation ($p = 0.086$), exchange rate fluctuation (ERF, $p = 0.063$), import ban & trade tariffs (IBTF, $p = 0.014$); general legal requirement (GLR, $p = 0.031$), legal enforcement of contracts (LEC, $p = 0.028$), war & revolution ($p = 0.060$), Coup d'etat, ($p = 0.031$), growth potential ($p = 0.086$), market size ($p = 0.060$), demand conditions $p = (0.060)$, Firm size ($p = 0.063$), International experience ($p = 0.027$), Business network ($p = 0.048$).

The Cox and Snell pseudo R^2 for the Logistic regression as shown in Appendix A was 0.594 and the Nagelkerke R^2 value was 1.00 indicating that this model accounts for between 59.4% and 100% of the variance in exporting and FDIs. Clearly this model was adequate. Thus, the following answers to the research question are provided.

(H_4) The sizes of Finnish SMEs in Nigeria limit their accessibility to both managerial and financial capability needed for an FDI mode choice in Nigeria.

(H_5) The experience of the management and organisation's of Finnish SMEs in Nigeria is not adequately oriented for them to opt for FDI in the Nigerian market.

(H_6) The growth potential of the industries within which Finnish SMEs operates in Nigerian is not adequate for FDIs entry mode choice.

(H_7) The Nigerian market is environmental highly volatile in nature thus is one of the reasons of lack of FDI among Finnish SMEs in Nigeria.

(H_8) The Nigerian and Finnish market are perceived to be cultural distant (difference in business practices, norms organisational practices communication style nature of relationships with people) by Finnish managers as a result influences the choice for exporting over FDIs.

(H_9) The local networks of Finnish SMEs (MNEs, R&D partners, SMEs etc) are not oriented towards the West African or African market generally. Thus, influences their lack of knowledge, interest and choice for exporting over FDIs.

(H_{10}) No support for this was found. Thus, it was not statistically significant. The implication is that Finnish Government support SMEs to make equity investment through their government support programs and other business delegations to Nigeria organised by Finpro and Funding from Finfund.

5 CONCLUSION AND DISCUSSION

5.1 Managerial Implications

This paper examines the reasons for lack of FDIs in the Nigerian market among Finnish exporting SMEs in Nigeria. It illustrates the underlying factors that influence their choice of exporting as against other equity entry mode choice.

The research found out that exporting modes was preferred by these firms in the Nigerian market due to several reasons shown in Figure 18. Exporting is a form of nonequity modes among others such as contractual entry modes. Thus, there is need for these Finnish SMEs to consider contractual entry mode choice like subcontracting, project business, licensing etc. to help them gradually gain more knowledge about the Nigerian market. This may provide the experiential knowledge needed for an FDI.

Also, when the willingness to know and develop products for the Nigerian market seems not to be a strategic choice for these SMEs and the exposure to West African market seems to be relatively not adequate, there is a tendency that these SMEs may not understand the industry dynamics and environmental characteristics of the Nigerian market. When the willingness is not a strategic choice for these organisations, the competence expertise needed to explore the full potential of a culturally distant and high volatile Nigerian market may be far from been achieved.

Furthermore, there may seem to be an "I don't care" attitude towards the Nigerian market because there is no significant contribution to the revenues or sales volumes of exports to Nigeria when compared to other foreign market of these firms. However, the reason for this may be because these firms have not developed the right willingness and exposure needed to undertake business in Nigeria in order to explore the full potential of the Nigerian industries.

These firms should also take cognizance of the fact that country risks or volatility is firm specific, project specific, or even product specific (Moran, 1983; Teeple 1983). Thus, different firms, offering different or the same products, in different project business in the Nigerian market may be affected differently by the environmental volatility in the Nigerian market. Thus, there is need for managers to research on how these environmental volatilities would affect their firm, entry mode choice and nature of product offerings because the degree of most of these risks could be reduced by risk insurance.

Finally, for SMEs willing to cushion the cultural gap between their organisation and the Nigerian market or acquiring knowledge of the Nigerian market may seek to

employ West Africans or Nigerians who have had studies in Finnish universities and are acquitted with the Finnish culture to contribute to their strategic market entry decisions and business operations in the Nigerian market. As a summary, the main obstacles for Finnish SMEs FDIs in Nigeria are environmental volatility of the Nigerian market, small firm size, perceived managerial cultural distance between Nigerian and Finland and Insufficient knowledge and experience of Finnish Managers in going business in Nigeria.

5.2 Theoretical Implications

Figure 18 shows the reasons for lack of FDI in the Nigerian market among Finnish firms in Nigeria using Hamill 2004 model on risk of entry modes.

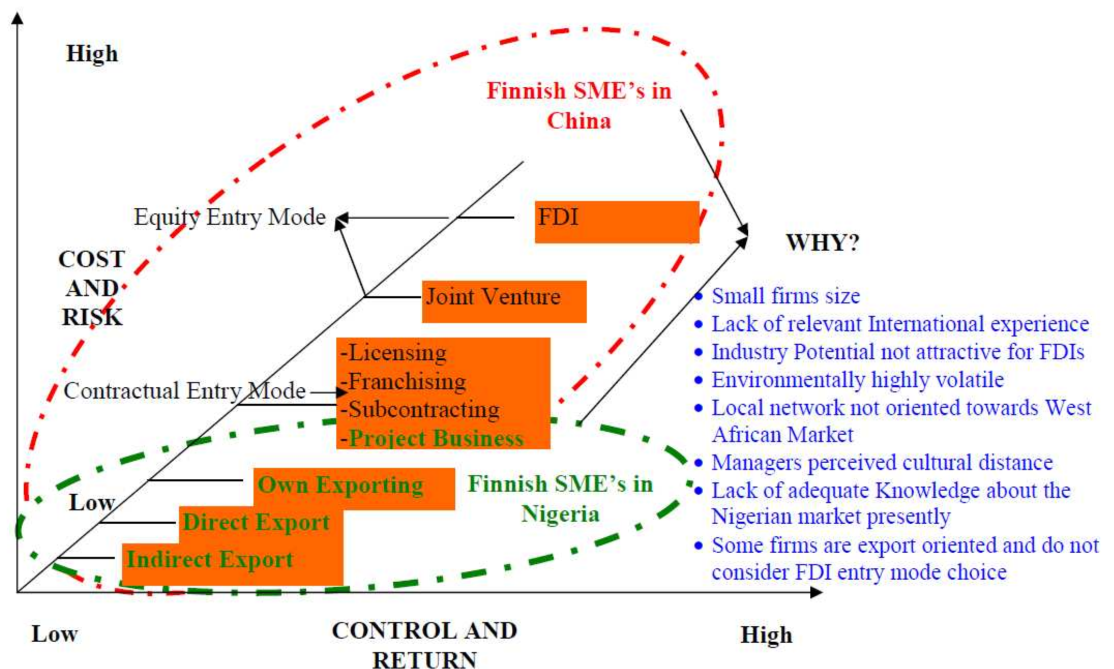


Figure 18. Finnish SMEs in China and Nigerian Market: Reasons for lack of FDIs in the Nigerian Market.

First, the result shows that most SMEs that started exporting into the Nigerian market had entered the Nigerian market within 1980-2007, and that there has been no difference between the Nigerian market during their time of entry and what is obtainable today. Thus, the reasons why they opted for exporting at the time of entry has not changed till date. In some circumstances were there is improvement, it still not adequate for their firms to opt for FDIs as an entry choice into the Nigerian market. Thus, the FDI determinants in the Nigerian market at the time of entry of these firms were not adequate for their firms to opt for FDI and are still not adequate at the moment whereas, they ventured into the Chinese market because FDI determinants were encouraging at that time. This means that these firms are unaware

of the developments and market potential inherent in the Nigerian market presently. For organisations like Finpro encouraging SMEs internationalisation into Nigeria, there would be need for more seminars and business conferences to inform them about the inherent opportunities that are in the market and the present market conditions.

Furthermore, the result shows that some firms did not consider the option for an FDI, but only entered the Nigerian market because of contacts from external agents in Nigeria. Also, some of the firms are export oriented firms and did not have the strategic decision making process in place for decisions regarding choice of FDIs or exporting due to firm commitment and resource factors.

The statistical binary logistic regression shows that managerial perceived cultural distance between Finland and Nigeria is one of the reasons for lack of FDI among Finnish exporting SMEs. Out of the eight perceived cultural distance measures, only five gave positive significance (norms and values, business practices, organisational practices, communication style and nature of relationships with people). These cultural differences are the factors that managers take into account in their entry mode decisions either explicitly or implicitly hence managers' perception drive their strategic decisions (Drogendijk & Slangen, 2006). Organisational practices and business practices are induced by cultural values. Thus, SMEs do not opt for FDIs entry mode choice into the Nigerian market due to difference in organisational and business practices, difference in communication styles as well as difference in the nature of business relationships in Nigeria.

For instance, in acquisitions entry modes, these differences may make it difficult for integration of Finnish SMEs into SMEs corporate network after they have been acquired. In joint ventures, integration of both (Nigerian SMEs/MNEs & Finnish SME) business practices and organisations practices may be difficult hence there is no gap between cultural values and organisation practices. This is the reason why both were significant and are in support of Hofstede assertion that cultural values will impact organisational behaviour. This result indicates that from managerial perspective, Finland and Nigeria are culturally distant and this cultural distance reduces the likelihood of using higher commitment entry modes (FDIs).

Second, the study also found out that due to the limited amount of managerial and financial resources available within the disposal of this Finnish exporting SMEs in Nigeria, they opted for exporting over FDIs. Third, the study found support that the Finnish exporting SMEs do not have the relevant international experience needed to influence or choose FDIs as an entry mode strategy for the company. Both the organisation and management lacks West African market exposure and willingness to know the Nigerian market. Though, they seem to have international experience in

doing business generally, but there experiences are not relevant for the Nigerian market. Furthermore, while these SMEs have gained within four to twenty years of business experience in the Nigerian market, they were unable to move from exporting to equity investments.

Fourth, the study also found support for the industries within which these firms operate in the Nigerian market. The significance of the industry measure is thus; within these industries these SMEs operate in the Nigerian market, the growth potential is not significantly adequate to attract FDIs. If the industries are not attractive for FDIs, they may be attractive for other contractual entry modes like subcontracting, licensing, franchising, project business etc. Although, contractual entry modes has the highest risks in terms of technology risk and cost & return (Osland et al., 2001); the research did not find any significance between their entry modes choice and their differentiated product offerings. Thus, technology risks may not be decisive issue in opposition to contractual modes. This may need more extensive research since this study only has responses from exporting SMEs.

Fifth, the study also found out that the business networks of these SMEs are not positively oriented towards the West African market or Nigerian market. In some cases, the managers do not know if there business partners have business activities in the Nigerian market or West African region. Thus, the potential of networking in internationalisation is not positively utilised by the firm in their relationships within their strategic nets.

Finally, the study found out that the Nigerian market is highly volatile and environmentally uncertain (poor market infrastructure, high political uncertainty, high administrative uncertainty, high economic uncertainty, high legal uncertainty, and high social uncertainty). Thus, these SMEs, faced with a high level of uncertainty in the environment, they prefer to maintain a flexible position, by leaning on some local partner or to avoid the inconveniences entailed by internalisation.

Furthermore, despite the years of business experience of these SMEs in the Nigerian market, the Nigerian market is still culturally distant and highly volatile. According to Dow & Larimo (2007), given these years of experience, the cultural distance and country risks would have been reduced hence the firm has more knowledge about the Nigerian market which would have made them tend to have greater possibilities to cushion the effect of the country risk and cultural distance. However, it may be said that, these firms are still on the part of experiential knowledge from exporting to contractual entry modes and finally equity modes.

5.3 Future Research

Some firms still follow the Uppsala experiential model, thus, firms internationalise with less commitments entry mode and over time when they have gained experiential knowledge in doing business, they increases their commitments in foreign market. However, it is still difficult to analyse the amount of years of nonequity mode operations that would provide adequate leverage for firms to consider equity mode investments. Thus, understanding what kind of experiential knowledge that can be acquired in nonequity modes could provide a stepping stone in understanding how this knowledge can impact future entry mode choice (equity mode choice).

Hence some firms still follow the Uppsala Model, future research has to be focused on what kind of experience and knowledge (experiential knowledge) can be acquired in nonequity mode choice and how it impacts the successful operation of nonequity mode choice and future entry mode choice decisions (equity mode choice). Understanding these would enable firms to position their strategic objectives from inception of their nonequity mode operations in a given market so that they can acquire the required experiential knowledge needed to successfully operate a resource commitment entry mode choice in a given market. The implication to this research is that, it would enable Finnish SMEs to understand how to strategically orient their exporting activities (nonequity modes) in the Nigerian market such that they would be able to posses the adequate knowledge and experience needed for successful operation of equity mode choice.

Furthermore, some firms' do not follow the Uppsala model, putting more emphasis on networks and network relationships amongst actors, process and activity in their business relationships. Network theories provided an understanding on how firms use their networks to internationalise and de-internationalise. However, for early starters and for firms in which their network is not oriented towards a particular market/region, how can they develop the necessary knowledge and expertise needed to operate an equity mode choice in that region? Thus, future research should be directed towards how firms can develop institutional knowledge, internationalisation knowledge and business knowledge needed to successfully operate FDIs in the Nigerian market? This is also applicable to born global firms.

Also, managerial perceived distance have received recent contributions in Internationalisation literature as a measure of cultural distance hence manager's perceptions drives their decision making. Drogendijka & Slangen (2006) utilise the managerial perceived cultural distance measure in their study on Hofstede, Schwartz, or managerial perceptions measure of cultural distance on entry mode choice of MNEs. They found out that experienced management teams' perceptions of cultural distance do not differ from those of inexperienced ones. Future research can also be

focused on “Does reducing the perceived cultural distance of managers about a foreign market influences their decision for equity mode choice?”

Finally, SMEs in psychically close countries to Finland, for example Sweden can be benchmarked to understand the entry modes choice of these firms in the Nigerian market and how they were able to overcome the challenges when entering into the Nigerian market.

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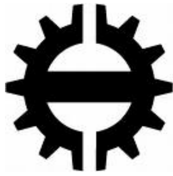
Appendix 1- Questionnaires



TAMPERE UNIVERSITY OF TECHNOLOGY
Department of Industrial Management

QUESTIONAIRE

Name:	Mr. Oguji Nnamdi
Program of Study:	MSc Business & Technology
Subject:	Masters Thesis
Title:	Finnish Small and Medium Size Companies in Nigeria: Factors influencing Lack of Foreign Direct Investment of Finnish Exporting SMEs.

This research is meant to study how Finnish firms seek to enter into the Nigerian Market and the reasons for lack of Foreign Direct Investment (FDI).
Please, assist us provide suitable answers to all questions listed below. Also, there is a list of definitions at the last page.

PATTERN OF ENTRY INTO NIGERIAN MARKET

(1) **Time of Entry**

I. What is the age of your company?
…………………………………………………………………………
II. What year did your company start its international activities into foreign markets?
…………………………………………………………………………
III. What year did your company start international activity in the Nigerian Market?
…………………………………………………………………………
IV. Were there any mediating factors why you choose to enter into the Nigeria market later than you did?
…………………………………………………………………………

(2) **Product of Entry**

I. What kind of product offerings does your company offer in the international market?
(a) Goods (b) Services (c) Systems (d) Know-how
II. What are you ability to produce differentiated products?
(a) Differentiation of our products is our core strategy (b) Our product does not necessary have to be differentiated.

(3) **Mode of Entry into Nigerian Market**

I. What Mode of entry do you have presently in Nigeria?
(a) Exporting (b) Licensing (c) Sub-contracting (d) Project Business (d) Franchising

II. What market selection rule do your company utilise?
(a) Naïve rule (b) Pragmatic rule (c) Strategic rule

III. Who are your customers in the Nigerian market?
a. Manufacturers (b) Service industry (d) Consumer market

(4) **Perceived Cultural Distance**

How large is the cultural differences (e.g. differences in norms and values, habits and customs, behaviours, business practices, organisational practices, language, ways of communication, relationship with people) between Finland and Nigeria responsible why your company has no FDI in the Nigerian Market?

5- Point Likert Scale ranging from Very Small to Very large

Cultural Distance Measures	**Very small**	**Small**	**Uncertain**	**Large**	**Very large**
Norms & Values					
Habits and Customs					
Behaviours					
Business Practices					
Organisational Practices					
Language					
Ways of Communication					
Relationship with people					

(5) **General Environmental Challenges**

The below table is a list of environmental challenges of market entry. Which of these environmental challenges is the reason why your company has no foreign direct investment in the Nigerian Market?

Environmental Challenges	**Low**	**Average**	**Uncertain**	**High**	**Very High**
Market Infrastructure					
Intellectual property right					
Transportation infrastructures					
Skilled labour					
Reliable power supply					
Ports and logistics services					
ICT technology and access					
Social Uncertainty					
Disruption of business					
Terrorist movements					
Unrest and Social Conflicts					

Kidnap of foreign worker					
Administrative Uncertainty					
Bureaucracy					
Corruption & Bribery					
Poor government regulations					
Economic Uncertainty					
Interest rates					
Inflation					
Exchange rate fluctuation					
Import Ban and Trade Tariffs					
Legal Uncertainty					
General legal requirements					
Legal enforcement of contracts					
Political Uncertainty					
War Revolution					
Coup d'etat					
Democratic changes in government					
Other political turmoil					
Natural Uncertainty					
Variations in rainfall					
Hurricanes					
Earthquakes					
Other natural disasters					

(6) **Industry Factors**

How can you describe the industry characteristics of your products in the Nigerian Market?

Industry Characteristics	Unknown	Small	Average	Large	Very Large
Market size					
Competitiveness					
Demand Conditions					
Growth Potential					

(7) **Firm Size**

The reason why your company does not have FDI in Nigeria is as a result of your firm size?
(a) False (b) Partly false (c) Uncertain (d) Agree (e) Strongly Agree

(8) **International Experience**

I. Have your company been doing business in Ghana, Sierra lone?
(a) No (b) Yes

If Yes, What entry mode operations does your company have there? …………………………………………………………………………………… ……………………………………………………………………………………

II. How many years of operations have you been doing business there. …………………………………………………………………………………… ……………………………………………………………………………………

(9) **Management and Organisational Characteristics**

Level of West African Exposure

I. Where you born in any part of West Africa?
(a) No (b) Yes

II. Have you ever studied at any educational Level in West Africa
(a) No (b) Yes

III. Have you ever spent time (holiday, leisure or visit) in West Africa
(a) No (b) Yes, If Yes how often…………………………………………….

IV. Have you ever been on a business trip in West Africa?
(a) No (b) Yes, If Yes how often?...

Willingness to know West African Market

V. Have you ever been willing to develop products for West African Market?
(a) No (b) Yes

VI. Have you ever funded or willing to fund any West African activities?
(a) No (b) Yes

VII. Have you ever research or willing to research the West African Market
(a) No (b) Yes

(10) **Local Business Networks**

Is there a member of your business networks or partners in Finland (SMEs, MNEs, Research partners, private business consultancies) that have business activities in the Nigerian Market or West African Markets generally?
(a) No (b) Yes

If yes, what mode of operations do they have there?
…………………………………………………………………………………… ……………………………………………………………………………………

(11) **The Role of Government**

Is there any support provided by Finnish Government to support or assist your internationalisation into new markets especially the Nigerian Markets?
(a) No (b) Yes, If Yes, How…………………………………………………….

……………………………………………………………………………

(12) **PESTL Analysis**

Analyse the Political, Economic, Social, Technological, and Legal situation of Nigeria within 1980-2000 and from 2000-2010. If your company had entered the Chinese market within 1980-2000, also provide the Political, Economic, Social, Technological, and Legal situation of China within that same period

5-Point Likert Scale: Very small to Very Large
VS=Very Small, S=Small, U=Uncertain, L=Large, VL=Very Large

	Nigeria 1980-2000					**China 1980-2000**					**Nigeria 2000-2010**				
Political Condition	**VS**	**S**	**U**	**L**	**VL**	**VS**	**S**	**U**	**L**	**VL**	**VS**	**S**	**U**	**L**	**VL**
• Labour law															
• Environmental law															
• Absence of trade restrictions															
• Tariffs															
• Political stability															
• Tax policies															
Economic Condition															
• Econ. Growth rate															
• Interest rates															
• Exchange rates															
• Inflation rate															
Social Condition															
• Pop. growth rate															
• Age distribution															
Technological															
• Level of R&D															
• Industrialisation															
• Automation level															
• Tech-Infrastructures															
Legal Conditions															
• Health & safety law															
• Discrimination law															
• Consumer law															
• Antitrust law															
• Employment law															

DEFINITION OF TERMS

Goods: Goods include components, materials, equipment, and machines.

Services: Services are intangible offerings often simultaneously produced and consumed, and do not include transfer of ownership.

Know-how: Know-how includes products that can be seen as unique know-how that is often protected with a trademark or patent and is usually licensable.

Systems; Systems can be seen as a combination of physical goods, services and/or know-how, which represent a total solution to customers' needs

Localized product strategy: This refers to situation where the company decides to develop products for only one country or a limited area.

Modified product strategy: This refers to situation where the company may develop a common product platform that is used across the globe, but allows for product adaptations based on regional or country specific requirements.

Standardized product strategy: This refers to situation where the company pursue a strategy to develop a fully standardized product across the globe.

FDI: This means Foreign Direct Investments such as Joint Ventures, Acquisitions and Greenfield Investment

Exporting: Your company products are manufactured or otherwise produced outside the Nigerian Market and then sold in the Nigerian market either through agents or sales subsidiary or indirect exporting techniques

Sub-contracting: Subcontracting is a form of entry mode in which your company receives a contract to be in charge of a company's products or manufacturing process in the Nigerian market.

Project Business: A business operation within a specific time frame between your company and another company or establishment in the Nigerian Market

Franchising: Franchising is a form of entry mode in which the company (franchisor) licenses a business system including its property rights to the licensee (Franchisee) operating in Nigerian Market

Licensing: licensing involves a process in which a company transfers the right to use technology and human skills to a business entity (Licensee) located in the Nigerian market.

Naïve rule: Naïve rule implies that SME's use the same entry modes for all markets irrespective of the potential opportunities inherent in the market. so the chosen alternative might not be the most suitable.

Pragmatic rule: Pragmatic rule entails that your company use one entry mode for each market and no investigation of the most suitable entry mode is made. Within this rule, your company do not investigate all entry mode alternatives

Strategic rule: The strategy rule implies that SME's compares and evaluates all entry modes alternatively before making a strategic decision on which entry mode to use when entering each foreign market.

Appendix 2- Binary logistics Regression

Table 8. Binary Logistic Regression for Depedent Variables and Independent Varibales

Variables not in the Equation[a]

			Score	df	Sig.
Step 0	Variables	Norms	2,740	1	,098
		Habits	,900	1	,343
		Behaviours	,732	1	,392
		BusinessPractices	3,600	1	,058
		OrganisationalPracticies	4,629	1	,031
		Langauge	,600	1	,439
		Communication	6,000	1	,014
		Relationship	3,840	1	,050
		GrowthPotential	2,945	1	,086
		MarketSize	3,541	1	,060
		Competitiveness	1,200	1	,273
		DemandConditions	3,541	1	,060
		FirmSize	3,459	1	,063
		InternationalExperience	4,867	1	,027
		Government	,600	1	,439
		IPR	4,800	1	,028
		TP	4,800	1	,028
		SI	2,880	1	,090
		RPS	4,737	1	,030
		PLS	5,345	1	,021
		ICT	4,800	1	,028
		DB	3,541	1	,060
		TM	3,826	1	,050
		USC	3,459	1	,063
		KFW	3,333	1	,068
		Bureaucracy	4,800	1	,028
		Corruption	3,541	1	,060
		GR	5,007	1	,025
		Interestrates	3,600	1	,058
		Inflation	2,945	1	,086
		ERF	3,459	1	,063
		IBTF	6,000	1	,014
		GLR	4,629	1	,031
		LEC	4,800	1	,028
		War	3,541	1	,060
		Coup	4,629	1	,031
		DCG	1,765	1	,184
		Politicalturmoil	2,028	1	,154
		BusinessNetwork	3,913	1	,048
		ProductNature	,240	1	,624

a. Residual Chi-Squares are not computed because of redundancies.

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	5,407	1	,020
	Block	5,407	1	,020
	Model	5,407	1	,020

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	,000[a]	,594	1,000

a. Estimation terminated at iteration number 18 because a perfect fit is detected. This solution is not unique.