FOREIGN DIRECT INVESTMENT AND ENTRY MODES FROM TURKEY TO AFRICA: THE INVESTMENT, CLIMATE, DETERMINANTS, OPPORTUNITIES, CHALLENGES

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DECLARATION OF ORIGINALITY

I, Muhammed Enes Uslu, certify that

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ABSTRACT

Foreign Direct Investment and Entry Modes from Turkey to Africa:

The Investment, Climate, Determinants, Opportunities, Challenges

Firms must choose one of the different entry strategies, such as exporting, foreign direct investment, joint venture while entering a foreign market. Various factors can affect entry mode decision. This study aims to determine which internal and external factors are influencing the foreign entry mode decision of Turkish companies entering the Kenyan market. Economic and political stability, economic growth rates, intensity of competition, company size and country experience among many other internal and external factors have been tested with the cases based on real business experiences of five Turkish companies operating in Kenya. For this purpose, experiences have been collected from 5 companies via online-administered questionnaires and interviews. Country managers who are responsible for Kenya of these five companies were chosen as participants according to their direct role or knowledge about the entry mode decision-making process taken within the company. According to the findings, economic and political stability as well as high growth rates in GDP more likely lead the Turkish companies to make direct investment in Kenya instead of choosing an export entry mode. Although there is one exception among the firms, firm size is also a highly influential factor in choosing an entry mode that requires high resource commitment. Level of competition and previous experience in the target market were not observed as highly influential factors for all firms, as hypothesized in the study. This work presents the outcome of research in Turkish companies’ entry mode decision to the Kenyan market and factors that affect their choices.

ÖZET

Türkiye'den Afrika Pazarına Doğru Yatırım ve Giriş Stratejileri:

Yatırım, Yatırım İklimi, Belirleyiciler, Fırsatlar, Zorluklar

Firmalar, belirlediği hedef ülke pazarına giriş yaparken, ihracat, doğrudan yatırım, hedef ülkede bir başka firma ile ortaklık kurmak gibi farklı giriş stratejilerinden bir tanesini seçmek zorundadır. Bu giriş stratejisini belirleme konusunda karar verirken de, birçok faktörden etkilenmektedir. Bu çalışmanın amacı, Türkiye'den Afrika'ya iş yapan şirketlerin, Kenya pazarına girişlerinde hangi içsel ve dışsal faktörlerden etkilendiğini belirlemektir. Bu doğrultuda, önerilen hipotezler aracılığıyla ekonomik ve siyasi istikrar, hedef ülkenin son yıllardaki ekonomik büyüme oranı, rekabet yoğunluğu, şirket büyüklüğü ve hedef ülke tecrübesi gibi faktörleri test etmek amacıyla vaka çalışması yapılmıştır. Bu amaçla, Türkiye'den Kenya pazarına girmiş olan beş firmanın tecrübeleri, çevrimiçi yönetilen anketler ve yapılan mülakatlar aracılığıyla not edilmiştir. Şirket içinde giriş stratejisi kararının alındığı süreç hakkında detaylı bilgiye sahip oldukları için, sözkonusu beş şirketin Kenya'dan sorumlu ülke müdürleri katılımcı olarak belirlenmiştir. Elde edilen bulgulara göre, ekonomik ve siyasi istikrarın yanı sıra son yıllardaki GSYİH'deki yüksek büyüme oranları, Türk şirketlerinin ihracat ile pazara giriş şekli yerine Kenya'da doğrudan yatırım yapmaya teşvik etmiştir. İstisna örnekler olsa da, genellikle firma büyüklüğünün de yüksek kaynak taahhüdü gerektiren bir giriş şeklinin seçilmesinde oldukça etkili bir faktör olduğu gözlemlenmiştir. Ayrıca, rekabetin düzeyi ve hedef pazardaki geçmiş deneyimler, firmaların tümü için çok etkili faktörler olarak gözlenmemiştir. Kısacası, bu çalışma Türkiye'den Afrika pazarına giriş yapan firmaların giriş stratejisi kararını etkileyen faktörleri açıklamaya çalışmaktadır.

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CHAPTER 1

INTRODUCTION

For a few decades, many academic interests have been given to the entry choice decision of firms, and which factors, in which conditions are essential determinants to be considered. Many articles are available in this field regarding various regions/countries and including both developed and developing markets, whereas there is only a limited number of studies on the entry mode choice of Turkish firms to Africa. There is a limited source of empirical data for Africa in official institutions and also in the academic literature, this makes it difficult to study this region. Moreover, there are 54 countries on the Africa continent, and country-specific factors such as business culture, economic and political structure, size of market and bureaucracy may be different among these countries. Therefore, in this study, the focus is given to a particular African country rather than the whole African continent to deeply understand the determinants of entry mode choice in a specific region. The present study will focus on the Kenyan market in the case study format considering five Turkish companies.

This thesis starts with a literature review examines entry mode choice and its determinants, Turkey-Africa and Turkey-Kenya trade relations and business culture in Africa. Next, hypotheses related to the foreign market entry factors are developed. Then semi-structured interviews and online-administered surveys conducted with these five companies are explained and analyzed as internationalization cases. Then, the results about which factors that have the most important impacts on companies' decision on entering the Kenyan market in Africa are presented according to the hypothesis results.

The purpose of this thesis is to add further knowledge to the academic literature by investigating the internal and external factors affecting the choice of entry modes of Turkish firms in Kenya. An examination of the literature relating to the topic is discussed to provide and develop a clear understanding on entry modes of foreign companies. Previous studies about entering emerging markets have usually focused on Central and Eastern Europe and China (Meyer, Estrin, Bhaumik & Peng, 2009). Therefore, there is a gap in the literature regarding the relationship between Turkey and Africa in this scope.

CHAPTER 2

LITERATURE REVIEW

2.1 International Trade and Liberalization of Turkish Trade Policies

Litman (1926) claims that various different factors influence the international trade. Thus, it is not easy to measure the effect of a single variable in relation to the increase or decrease in trade among countries.

According to the Investment Support and Promotion Agency of Turkey (2021), international trade liberalization in Turkey occurred in the 1980s and international activities have increased steadily. Turkey became a founding member of many other organizations such as the Economic Cooperation Organization (ECO) in 1985, Organization of the Black Sea Economic Cooperation (BSEC) in 1992. Then, Turkey became a member of the World Trade Organization (WTO) in 1995. Turkey also became a part of the Customs Union in 1996. Furthermore, according to Ministry of Trade of Turkey (2021), Turkey has signed Free Trade Agreements with 22 countries including 4 African countries such as Tunisia, Morocco, Egypt and Mauritius.

2.1.1 Entering to International Market and Entry Mode Choice

"A foreign entry mode is an institutional arrangement facilitating the entry of a company's products, technology, human skills, management, or other resources into a foreign market" (Gao, T., 2004., p. 37).

Products, services, target foreign markets and entry mode decision process are some of the basic terms when internationalization has been taken into consideration. The present research will focus on the choice of entry mode and how the internal and external factors affect the decision process.

When firms, regardless of their size, decide to sell their products abroad and go international, they need to make an entry choice and marketing strategy. A firm must make a crucial strategic decision on which entry choice to adopt before it enters to target market (Hill, Hwang & Kim, 1990; Nakos & Brouthers, 2002; Larimo & Arslan, 2013; Hill & Hult, 2018). Otherwise, wrong decisions may lead to unsuccessful results in overseas businesses.

According to, Hill and Hult (2018), a firm expanding abroad must decide first which market to enter, then when to enter and finally which entry mode to use. Nevertheless, it is not always easy to decide how to enter the foreign market as there are various elements affecting the firm's choice such as the size of the target market, economic stability, currency risk, political risk in the target market, firm's desire for the degree of control on management, amount of risk it can take or it wants to take, profitability from sales, financial, technological and human resources, cultural distance between the home and host country, etc. This will broadly be mentioned in the Entry Mode Selection section of the present study.

Different firms that focus on the same country or the same company in various markets might select different entry modes, so it should be emphasized that there is no optimum market entry strategy for specific companies. Firms also can combine some entry modes while entering a market (Hollensen, 2008).

Some firms have enough resources to expand internationally, whereas others do not. Therefore, the amount of scale while entering the foreign market is essential. Some prefer to enter on a small scale, but some others decide to enter the market on a large scale. However, firms that have rich resources may also prefer to enter on small scale and then increase their penetration with small steps over time (Hill & Hult, 2018). If a firm is risk-averse, it may prefer the small-scale entry and limit the possible losses, but this choice also causes the loss of the chance of capturing a high percentage of the market, it cannot realize its potential for making high profits. In other words, it can be said that as control and commitment over the business increases, risks and costs get higher, also the potential of yielding many benefits.

2.2 Internationalization Theories

Entry mode choice has been a critical decision and studied in the academic literature for a long time. There are countless different models and theories developed to understand and better explain the factors that have an impact on entry mode decision.

In the past, general marketing theories have constituted most of the literature on internationalization. Later on, the choice between export and FDI modes has taken place in the internationalization literature (Hollensen, 2014).

According to Zhao & Decker (2004), it is stated that various studies have been conducted to check the feasibility of the available models in order to determine the factors affecting entry mode choice of firms who run international businesses. Considering each of them by oneself, none is alone sufficient to reach proper results regarding the relationship between factors and entry mode choice decisions however, the combination of all can give a wider perspective to obtain a more accurate estimation.

The concept of internationalization is related to firms spreading their activities beyond their national borders. When businesses begin to take part in the international market, they gain the qualification of being international. According to the internationalization literature, being at the stage of export is sufficient to be considered as internationalization, it does not matter whether it arises from export or exists in the form of direct investment or license agreements (Erkutlu & Eryiğit, 2001).

According to Altıntaş and Özdemir (2006), the basis of internationalization naturally depends on the selection of a target foreign country market. As mentioned in their work, Rundh in 2001 found that businesses that started their international activities in different markets have used different market entry types. However, according to Altıntaş and Özdemir (2016), Whitelock stated that it should not be forgotten that the entry model a firm chooses depends on the level of their knowledge about the foreign markets.

Some ideas contend with each other in some points, whereas others fill the blanks when they come together. It can also be pointed out that the Uppsala, The Innovation-Diffusion Model and Network Model are widely used ones.

2.2.1 Uppsala Model

Uppsala theory, one of the traditional theories, was carried out firstly by the researchers of the Scandinavian countries by giving attention to internationalization of Swedish manufacturers (Hollensen, 2008).

According to Ulaş (2009), the theory actually consists of two different models. The first one is the "Stage model" developed by Jan Johanson and Finn Wiedersheim-Paul in 1975. The second one is the "International Process Model" developed two years later, in 1977 by Jan Johanson and Jan-Eric Vahlne, which is further developed by Tamer Çavuşgil in 1980. Both models explain the same subject and are very close to each other, in fact, they are often referred to with the same name. However, they are different from each other at various points. While physical distance is an important variable in the “Stage Model”, the importance of commitment and knowledge is emphasized in the “International Process Model” (Ulaş, 2009).

Besides, according to Ulaş (2009), the Uppsala theory is about acquiring knowledge for a company that is strengthening internationalization throughout a learning process. It is difficult to become a multinational business due to the lack of knowledge about foreign markets. The theory includes a number of stages determining the internationalization levels of businesses. It focuses on how the knowledge and experience of a business (learning) affect internationalization.

In other words, a firm begins exporting in a small portion and gradually before it acquires knowledge and experience, and then its export share exceeds its local sales, so finally copes with the psychic distance (culturally different markets) (Rutashobya & Jaensson, 2004).

It is important to see what stage model is in order to understand the Uppsala Model, that was mentioned as one of the qualitative models in the present study.

According to Ulaş (2009), at the first stage of the Stage Model, there is no continuous and regular export activity. After a while as a second stage, the business begins to export its products through independent agencies. This is also called "indirect exporting" and does not require extensive knowledge about the environment in the target country. With indirect export, the business increases its knowledge about the target country and learns how to deal with customers and becomes able to operate directly. The next stage is the establishment of a sales branch abroad. The final step is to establish a production facility in the foreign country. In addition, International Process Model constitutes five models. First stage is sales are made only in the domestic market. Second step is the pre-export stage in which a research is made during the process to make decision whether or not to export the target market. Third one is the trial Phase in which a small volume of exports start to only nearby countries to home. At the fourth stage, the firm needs a separate department to increase its export activities, it also establishes agencies or give dealerships in the target market. Last stage is that the firm considers direct investment opportunities.

2.2.2 The Innovation-Diffusion Model

According to Kalyoncuoğlu and Üner (2010), another model explaining the internationalization is the innovation-diffusion model or innovation related internationalization theory, which emerged as a result of the following works of researchers such as Bilkey and Tesar in 1977, Çavuşgil in 1980, Reid in 1981 and Czinkota in 1982. Actually, these models are derivatives of Roger's "adoption process stages" approach (Erkutlu & Eryiğit, 2001).

The model basically focuses on the learning process of the firms by adapting to innovation. Innovation is seen as an activity that causes some changes in the existing activities of the business to adapt to the changes (Ulaş, 2009). This change is considered as that a firm starts exporting, and then internationalization occurs in the stages. During this process, firms gain more knowledge about target market and psychic distance is reduced step by step, therefore firms get more international experience and make commitment moderately (Rutashobya & Jaensson, 2004).

To briefly explain the stages in the model that, the efforts to begin export can be seen as the beginning, and the making first sales to overseas is seen as the following step, and strengthening the network abroad in order to increase its export volume is another step. There could also be different efforts among the stages such as attending the international exhibitions and trying to make more research by going abroad-foreign markets (Ulaş, 2009). There is basically no difference between these models, they mainly mention similar ideas. However, the main difference can be seen in the number of stages and the description of their stages (Erkutlu & Eryiğit, 2001).

2.2.3 The Network Perspective

According to Coviello and McAuley (1999), the Network Model claims that the set of network relationships are more important tool than a firm’s core advantage to accomplish the internationalization process. This model, found by Johanson and Mattson in 1988, is described as the relationship between customers, suppliers, distributors, rivals, government and the firms (Altıntaş & Özdemir, 2006). In other words, according to this theory, the success of a firm entering international markets mostly depends on network relationships in its existing national and international markets. The network includes relationships with customers, distributors, suppliers, competitors, trade associations, local producers, private and public institutions. The company's strategy is influenced by those relationships within the network. And expanding foreign markets are possible in three different ways in the network theory. Firstly, establishing new relationships with other network structures located in foreign countries. Second way is the developing existing relations in foreign countries. The consolidation of network structures in different countries is another method (Ulaş, 2009).

It can be briefly said that according to this model, the degree of success depends on the relationships that were established in the foreign market by the firms rather than cultural elements or target market specifics. According to Ulaş (2009), resource sharing and learning among the members of the established network can provide a competitive advantage to small businesses in this theory.

2.3 Entry Mode Related Models

Nonetheless, an entry mode theory has not been found yet. However, theoretical studies in the literature regarding entry mode choice can be generally categorized under qualitative and quantitative models. Qualitative models often have conceptual features and are widely available in the current literature, in contrast, quantitative approaches are mainly based on game theory and not widely available (Decker and Zhao, 2005).

Moreover, theoretical studies can also be divided into two groups such as content and process-oriented. In content-oriented studies, the factors affecting the entry choice and their possible effects are examined, while process-oriented studies examine how this choice is decided by following certain procedures. Moreover, in empirical studies, certain data are analyzed to verify the assumed mutual relationships between the entry method selection and the factors that determine this choice (Zhao & Decker, 2004).

Quantitative Models

Approaches based on the quantitative model have two leading parts. The first one is based on the transaction cost theory (TC) supported by scholars such as Grossman and Hart (1986) and their supporter opinions. Internalization theory is the second branch followed by different opinions, basically represented by Casson and Buckley (1998) and others who have studied in this line. However, the internalization approach is closely linked to the TC theory (Hollensen, 2014).

A dual-period and dual-competitor model was improved by Grossman and Hart (1986) in order to solve the problem of property sharing partnership activity. According to this model, optimal ownership results from the equalization of marginal benefits provided by one party’s increased control and marginal costs incurred by the other party's loss of control.

Buckley and Casson (1998) have made a point on a theoretical model in the context of a duopoly economy that explores the selection decision of entry methods among export, license agreement, joint venture, and foreign direct investment. In this model, the optimal method is determined by eliminating the high cost and low-profit methods.

On the other hand, Mueller (2000) developed a dual-period model for the duopoly market. According to this model, in the first period, multinational companies decide whether or not to enter the foreign markets with investment methods such as acquisition and greenfield. Later on, MNCs make a decision between greenfield and acquisition entry mode in order to choose whether they compete with the local firm on sale prices or acquire that firm, thus operating as a monopolist in the market.

These models consider the choice of entry method as a problem of finding the best solution from all feasible solutions and show the behavior of the firms in the decision-making process. However, the fact that these models are consisting of only two or three companies in the whole economy of the target market is one of their weak points. Moreover, such a market type is not applicable to SMEs. Furthermore, most of the existing models in this group focus on the preference between two types of direct investment, namely, purchasing and greenfield. Few of these models examine the choice between joint ventures and direct investment (Zhao & Decker, 2004).

Qualitative Models

According to Zhao and Decker (2004), in addition to quantitative models, the four most common qualitative models in the literature are listed below:

2.3.1 The Stage Model

Johanson and Wiedersheim-Paul (1975) from the Uppsala school published an article titled “Internationalization of the Firm - Four Swedish Firms” and presented the SD Model. According to this model, the internationalization process of small and medium enterprises (SMEs) progresses slowly and takes much time in the two terms such as the geographical or cultural extension and the level of commitment (Zhao, 2005). Johanson and Wiedersheim-Paul (1975) claimed that non-Swedish companies follow the same steps in internationalization. The model argues that international activities require great resources, crucial market experience, and knowledge so that SMEs start international activities only after they develop in domestic markets. Therefore, it is proposed that the firms gradually develop international activities, and they do not invest suddenly, instead they progress step by step.

This model includes four stages. The firm gets orders from the foreign market at the first stage in which it does not have any investment yet, it does not export usually and there is no regular connection. Export activities become regular when contracting with the agency in the second stage. The company now has some distribution channels; thus, healthy communication is established between them. A few years later, enterprise goes to the third stage and set up a sales subsidiary. Also, control of the firm on its activities in the foreign market increases as well as the flow of information. At the final stage, production activities occur in the host country and a large amount of resource commitment is made (Johanson & Wiedersheim-Paul, 1975).

Brooke (1986) also implemented a stage development model in order to understand market entry determinants, whereas it is lacking in several aspects for explaining that. For instance, some SMEs begin with hierarchical entry modes such as FDI instead of exporting to target country, so this model is not able to explain this behavior of SMEs. Especially, there many examples of this type of firm-based entry behaviors in the African market.

2.3.2 The Transaction Cost Analysis (TCA) Model

According to Coase (as cited in Hollensen, 2008), the base for The Transaction Cost Analysis TCA model was laid by Coase. As he argued that “a firm will tend to expand until the cost of organizing an extra transaction within the firm will become equal to the cost of carrying out the same transaction by means of an exchange on the open market” (as cited in Hollensen, 2008, p.57).

TCA related to foreign market entry mode strategy is first suggested by Anderson and Gatignon (1986). They suggested a relationship between asset specificity and tendency to high-control, thus categorizing entry modes from low-control to high-control. Control refers to the ability and willingness of an enterprise to influence the decisions, systems and methods to be taken on its activities in foreign markets. Hennart (as cited in Gao, 2004) particularly implemented the opinion of transaction costs in order to examine the effect of ownership on entry type selection decisions in foreign markets. Later on, this model has been broadly developed by other researchers. Anderson and Weitz (1986) developed a structure using TCA to analyze vertical integration and marketing efficiency issues. Hill et al. (1990) combined environmental and strategic factors under the TCA structure, proposing all factors under those three categories. Klein, Frazier and Roth (1990) broadened the model by combining production costs and separating external uncertainty. Erramilli and Rao (1993) supposed that firms try to choose to have a high level of control in general so that they revised the TCA framework to adjust for the service sectors. Erramilli and Rao (1990) also stated that firm size is a crucial element in the entry choice decision-making process. However, although Anderson (1997) agrees that the development of transaction cost theories has enhanced the comprehension of entry mode choice, he criticized the developments of TCA models mentioned above. He states that in those models, the minimization of transaction costs was overlooked, instead only different entry mode determinants were focused on. Also, it is not easy to estimate the transaction costs before the entry has been constructed, having asset specificity and uncertainty index is the only tool for estimating them (Anderson & Gatignon, 1986).

2.3.3 The Ownership, Location and Internalization (OLI) model

This model is presented by Dunning (1977) at the Nobel Symposium with the topic of International Sharing of Economic Activity. The aim of the theory is to identify and evaluate the factors affecting production in the international markets. This theory is further developed by Dunning in the following years 1980, 1988, 1995, 1998 and 2000. This model is also known as the ‘eclectic paradigm’.

In the 1980s, Dunning introduced an interdisciplinary approach that explains why, how, and where businesses operate outside their national borders. Dunning (1980) expressed the relationship between the paradigm and the marketing discipline of the paradigm as ownership advantages (product characteristics, segmented markets, brand name), location advantages (social and cultural differences between countries, physical distance), internalization advantages (transaction costs: entry routes, agency, supplier relations). Therefore, criteria on the OLI model were analyzed for the three determinants the firms should take into account while deciding whether to establish overseas production facilities and if agreed, which entry mode choose. The firms and countries may have advantages based on three advantages such as ownership (firm-specific), location (country-specific) and internalization (managing value chains). This model assumes that firms who have advantageous on the OLI criteria are more likely to choose entry mode that gives high control, for instance, greenfield investment.

According to Galan and Gonzalez-Benito (2001), the advantages of OLI, which are the determining factors, contains answers to questions about internationalization; why (why should the firms make a foreign direct investment?), how (why the firms choose foreign direct investment instead of other market entry strategies) and where (where, which country should the firms make an investment?). Moreover, location and type of control are two interdependent choices constituting the internalization (Hollensen, 2014).

Ownership

Dunning (2000) says that the productivity differences depend on the transferable intangible assets of the parent company and called it “O”-Ownership effect. According to Burca, Fletcher and Brown (2004), a guest company from a different nation needs to have firm-specific advantages such as firm size, international experience and basic skills to manufacture differentiated products. These kinds of advantages are called the competitive advantages of a guest enterprise that produces across a foreign market, compared to businesses of firms based in other national markets.

Location

Location advantages indicate where international production will take place and arise when companies decide to position their value-added activities outside their national borders. If a business is not more profitable to continue with factor endowment (labor, energy, materials, communication channels) abroad, that company should export businesses in foreign markets (Hollensen, 2014). According to Burca et al. (2004), the OLI model considers market potential and level of market investment risk as the type of location advantages.

According to Root (1994), location refers to the advantages that a target country or region provides to the investors such as location-specific advantages, low labor costs, investment and tax incentives, quality of raw materials, qualified workforce, distance between the investor country and the host country, market size, market risk, customs and tariffs, raw material costs, membership of target country to a Regional Economic Integration, development of infrastructure, social structure and cultural similarities, government policies and economic system, international transportation and communication costs, etc.

Internalization

According to Çavuşgil, Knight and Riesenberger (2012), internalization means that a firm keeps and maintains one or more value chain activities inside. It decreases the number of drawbacks of relying on overseas intermediaries and partners. The firm's control over its overseas activities increases in this way. Besides, the option between internalization and having external suppliers are key to the FDI decision.

According to Ferreira, Pinto, Serra and Santos (2013), Dunning has listed the advantages derived from the OLI model in table 1.

Table 1. Advantages of Ownership, Location and Internalization

Ownership or firm-specific advantages	Location advantages	Internalization advantages
Access to markets, products and factors.	Market potential.	Reduction in transaction costs.
Product differentiation.	Input price differences.	Property rights protection.
Risk diversification.	Quality of inputs (natural resources, skilled labor).	Solution of asymmetrical information problems between suppliers and customers (market imperfections).
Specific appropriations: staff, capital, organization.	Financial resources.	Reduction in exchange costs.
Greater efficiency, coordination and leverage of resources from different locations, improving company capacities.	Transportation, communications and infrastructure costs.	Possibility of agreements.
Use of parent company's resources (through transfer pricing, for example).	Free trade barriers (import quotas, tariffs)	Ways of avoiding or exploiting state interventions (such as customs tariffs or investment incentives).
Greater dimension, scale economies and scope.	Distance between markets and inputs.	Reduction in buyers' and/or sellers' uncertainty.
International experience.	Investment policies; country risk.	Offer control in quantity and quality.
Flexibility in acquisition and production, for better location.	Country's tax breaks.	Sales control.
Recognition of fusion and acquisition opportunities.	Physical distance, language, culture.	Strategic gains.
	Clusters of related companies, taking advantage of agglomeration externalities.	Internalization of positive externalities.
		Inexistence of forward markets.

Source: Ferreira, Pinto, Serra, and Santos, (2013).

However, some researchers criticized the OLI model and claimed that it is inadequate to explain the determinants of FDI. For instance, some critics say the number of variables is so high, the variables are not independent of each other, the paradigm is static, and that there is no difference from the internalization theory of the paradigm have been brought (Dunning, 2001).

2.3.4 The Organization Capacity (OC) model

It is important to mention the resource-based theory in which the Organization capacity model is related. The Resource-Based approach emerged in the 1930s but has recently gained importance. Uniqueness and different structures of certain sources have been dwelled on in this theory in order to explain whether a firm is successful or not. Enterprises have tangible and intangible resources. Land, machinery, production activities, assets, etc. are considered as tangible resources; on the other hand, intangible resources include technological know-how, management information, financial knowledge, business practices of the firm, brand name, etc. (Ulaş, 2009).

Barney (1991) created four categories to better explain the resources, which are financial resources, physical resources, human resources, and organizational resources. The theory refers to the transfer of unique, valuable and inimitable resources (such as innovation capacity, R&D capability, patents) of firms to foreign markets with great profitability. These unique resources cannot be easily copied or imitated and can only be transferred to affiliated branches outside the country.

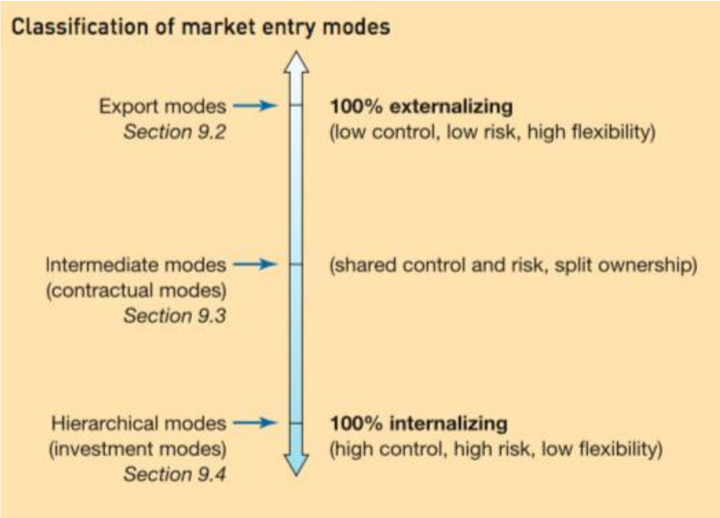
Resource-Based theory is widely followed by researchers. In line with this, some other researchers such as Conner and Prahalad (1996), and Kogut and Zander (2003) also developed the knowledge-based theory of enterprises.

2.4 Types of Entry Mode

Classification of entry modes varies in academic literature. In other words, some categories were introduced in the literature regarding entry modes based on their similarities and differences. For instance, according to Cavusgil et al. (2012), entry modes are classified into three categories such as export (direct, indirect and cooperative), contractual (licensing, franchising, contract manufacturing, joint venture/strategic alliance, consortium, cross-licensing agreement, turnkey, leasing, management contract) and hierarchical (acquisitions, merger, greenfield and brownfield investment) entry modes.

A similar classification with Cavusgil, Knight and Riesenberger was adopted by S. Hollensen (2008) as well. Hollensen also made a description of each entry mode group according to their degree of control, risk and flexibility by categorizing them as export modes, intermediate modes and hierarchical modes as shown in the figure below. From export modes to intermediate and hierarchical modes, the degree of control, as well as risk, is shifting from low to high, respectively. In other words, the degree of internalization is increasing from export modes to intermediate and hierarchical modes as described in figure 1 seen below. On the contrary, as the degree of control increases, the flexibility decreases. As mentioned, control refers to the ability and eagerness of a company to make the decisions and to shape the methods used in its activities while entering the foreign markets.

Figure 1. Classification of Market Entry Modes



Source: Hollensen (2008)

According to Hill (2014), firms can adopt five different types of entry modes such as exporting, licensing to host-country firms, establishing joint ventures (JV) with a host-country firm, setting up a new wholly-owned subsidiary (WOS), and acquisition of an established enterprise. In addition to this study, according to Hill and Hult (2018) firms can also choose the sixth entry mode called turnkey projects.

According to Kumar and Subramaniam (1997), equity-based (equity joint ventures (EJVs) and wholly-owned subsidiaries such as acquisition, and greenfield investment) and non-equity based (export and contractual agreements such as licensing and franchising) are considered as the two main parts of the entry modes. To clarify what FDI means, equity-based modes also refer to FDI that can be categorized into three types such as JV, acquisition and greenfield investments (Meyer et al., 2009).

On the other hand, according to Gao (2004), current studies only focus on equity involvement as the degree control, but there are also non-equity means of control which are bargaining power and trust situation of the firm to accurately understand its control potential, so these two should be identified by firms making foreign entry mode decision.

As Hill (2014) says that each option has advantages and disadvantages between each other and a couple of factors play role in deciding each entry mode. Therefore, the entry mode selection process is complicated and difficult as each entry choice is affected by different factors.

According to Hill and Hult (2018), summarizes the basic advantages and disadvantages of each entry mode are summarized in table 2:

Table 2. Advantages and Disadvantages of Entry Modes

Entry Mode	Advantages	Disadvantages
Exporting	Ability to realize location and experience curve economies Increased speed and flexibility of engaging target markets	High transport costs Trade barriers Problems with local marketing agents
Turnkey contracts	Ability to earn returns from process technology skills in countries where FDI is restricted	Creation of efficient competitors Lack of long-term market presence
Licensing	Low development costs and risks Moderate involvement and commitment	Lack of control over technology Inability to realize location and experience curve economies Inability to engage in global strategic coordination
Franchising	Low development costs and risks Possible circumvention of import barriers Strong sales potential	Lack of control over quality Inability to engage in global strategic coordination
Joint ventures	Access to local partner's knowledge Shared development costs and risks Politically acceptable Typically no ownership restrictions	Lack of control over technology Inability to engage in global strategic coordination Inability to realize location and experience economies
Wholly owned subsidiaries	Protection of technology Ability to engage in global strategic coordination Ability to realize location and experience economies	High costs and risks Need for more human and nonhuman resources; interaction and integration with local employees

Source: Hill and Hult (2018)

2.4.1 Export Modes

Export

Export refers to a sales strategy of manufacturing or producing products or services in one country, and selling them to other countries. It is ordinarily the most common entry choice used by firms that that are beginners to internationalization or new to the target host market as it requires less capital, less market knowledge and is less risky compared to other choices such as Joint Venture, Acquisitions and Greenfield investments. Moreover, exporting is a useful step for a firm to look at the opportunities in the foreign market such as distinguishing preferences of customers, exploring the environment and having close look for potential (Cavusgil et al., 2012).

The reason why this requires less capital, less market knowledge and poses a lower risk is that the exporter company produces in the home market, but keeps its sales and distribution activities in the host market. The cost of establishing a factory or manufacturing equipment abroad is not needed, so substantial costs of these are not required. Besides, exporting may help firms to succeed location economies and experience curve as it may reduce the unit cost by producing a larger volume of a product in local market and lower its purchase price of raw materials or inputs by having stronger bargaining power with suppliers (Hill & Hult, 2018).

Exportation often occurs in the producer’s home country, whereas it can also be in the form of an imported product being exported to another country (Singapore is a good example of a re-exporting country in the Southeast Asia region).

Small and medium-sized enterprises (SMEs) constitute most of the exporting firms, whose number takes around more than 90 percent in many countries (Cavusgil et al., 2012).

According to Hollensen (2008), there are various types of export channels that can be used by firms, and they can be categorized as 3 major export modes: direct, indirect and cooperative export.

Direct Export

Direct export is a practice by which an exporter firm directly sells its products to an intermediary located in the host market by eliminating any other channel/organization in the home country.

Agents and distributors located in a foreign market help exporter firms to sell their goods or services to customers overseas. Agents get a commission from their service by bringing together both exporter and importer, whereas distributors work as a buyer because their mechanism work by buying goods from an exporter and then selling them to customers in the host country. As it can be understood the main difference between them is a distributor uses its own capital to stocks the goods and arrange independently the sales process (Hollensen, 2008).

Indirect Export

In contrast to direct export, indirect export refers to having local channels/organizations in the manufacturer's country. In other words, an exporter firm does not directly sell its products or services to an intermediary in the foreign market, its sales instead occur in its own country by using an intermediary/organization and then exported to the foreign market. Therefore, international sales activity is not held by the manufacturer (Hollensen, 2008).

In general, firms which are not pursuing large international expansion, want to sell goods from unsold inventory or have limited capability to be able to expand internationally, act cautiously without investing much to abstain from taking a risk as much as possible use indirect export method (Albaum and Duerr, 2011).

Export buying agent, broker, export management company (EMC) also called the export house, trading company, and piggyback can be considered as the five major entry modes of indirect exporting (Hollensen, 2008).

Cooperative Export/Export Mark Groups

According to Hollensen (2008), cooperative export refers to manufacturers that have limited resources and abilities to enter a foreign market by themselves come together and form a group of export team facilitating the cooperation.

2.4.2. Contractual Entry Modes

Contractual entry modes refer to agreements made between two or more companies to operate a business in a foreign market. Licensing, franchising, joint ventures, contract manufacturing, counter-trade, turnkey contracting, leasing and management contracts can be considered in this category.

Licensing

High-tech companies use the licensing entry type in general because only firms owning intellectual property may have some products/know-how/process (preferably protected by patent) to be licensed for another firm that is willing to use it. Patent, trademark, copyright, design and geographical indications are types of intellectual properties. As Hill and Hult (2018) stated, a licensor grants the right to use an intangible possession to another firm for an agreed time period and the geography where sales can occur in return for royalty fee in the licensing agreements. Firms which have limited resource to invest in establishing all operations overseas may take advantage of licensing agreements. It is also used in foreign markets where economic and political instability exists. Moreover, when a firm is not allowed to invest because of barriers imposed by the government of a target country, licensing can be a useful way to enter that market. According to Jobber and Lancaster (2015), licensing is a good alternative for exporters who are willing to enter distant markets or are unable to export their products due to obstacles presented such as high import tariffs and non-tariff barriers implemented.

However, as stated by Hill and Hult (2018), using licensing entry mode may limit the control over manufacturing, marketing, and strategy that is needed for achieving experience curve and location economies. Also, losing control over technology by licensor is seen as a danger for companies because some firms may assimilate the technology, improve and then use it in another market.

Franchising

Franchising is an improved version of licensing which necessitates longer-term commitments, leads franchisee to obey some rigid rules about how to run business and also assists franchisee about how to provide goods to be sold (Hill & Hult,2018). Starbucks and Burger King are good examples of companies that use franchising for their businesses.

There are some forms of franchising such as from manufacturers to retailers, from manufacturers to wholesalers, from wholesalers to retailers and service firm sponsored franchises to retailers. Moreover, the franchisee supports franchisee with professional guidance on location, finance, operational stuff and marketing (Jobber & Lancaster, 2015).

Contract Manufacturing

If business owners do not want to take much risk by investing so much in a host country, they can make an agreement with a manufacturer in the target market and operate their own marketing, sales and distribution of produced products. It is a flexible mode because if the manufacturer in the target market does not meet the expectations, another manufacturer can be selected. Also, a firm does not need to make a foreign direct investment to manufacture its own products when it makes an agreement with a manufacturer. However, this choice may be less profitable because a foreign company aspiring to enter the target market where already many other public firms operate in the same sector, needs to form its own customers, therefore the competition is likely to be high.

Joint Venture (JV)

JV is a business arrangement in which two or more companies come together to run a business. Establishing a joint venture with a foreign firm is another way to enter the target market. As Hill and Hult (2018) suggest that most common JV is 50-50 shared one and there are some advantages of establishing a JV with a local firm when entering a foreign market. These advantages are respectively presented below:

First, a local partner’s knowledge and experience related to the host market’s business conditions in any manner can be beneficial for the firm pursuing to enter an unfamiliar market. Secondly, it is a useful way to share risk with another partner in an environment in which various uncertainties exist. Moreover, considering unpredictable political conditions in many countries, JV is sometimes the only practical way of entering the host market.

On the other hand, there are also some disadvantages. For example, if a multinational company (MNC) works with a local JV partner in the host country, where is an unknown environment for the MNC, a stylized agency problem emerges; the two firms might prioritize different targets; the MNC would eager to explore more about the local business environment, whereas other would want to access the MNC’s know-how and unique technology. These kinds of dissociations usually lead to the abolition of JV partnership within a few years after its establishment (Bhaumik, & Gelb, 2005).

Companies that choose JV or acquisition as entry mode in a foreign country diminish their transaction costs regarding operating their business if they require a considerable amount of tangible or intangible resources in the host market (Gomes-Casseres, 1989).

Consortium

A consortium is a nonequity arrangement undertaken by multiple partners to realize extensive projects. They come together to share the burden of work and earn the profits at the end of the project.

Cross-licensing Agreement

A cross-licensing agreement is a nonequity venture between partners that enable to share their patented knowledge for the specific projects.

Turnkey Contract

According to Cavusgil et al. (2016), turnkey contracting is an agreement between a foreign customer and a firm that arranges all activities from beginning to end related to the project and then deliver the final version to the customer. Companies generally undertake construction, engineering, design and architecture related works as a turnkey project. Construction of bridges, hospitals, harbors, roadways and railways are most common examples.

Build-operate-transfer Arrangement

Build-operate-transfer (BOT) arrangement is very similar to turnkey contracting in which it is handed over to foreign customer after it has been operated by contractor for a period of time.

2.4.3. Hierarchical Entry Modes

Acquisitions

According to Cavusgil et al. (2016), acquisition is a direct investment form which enables firms to acquire an established company that give ownership the buyer whatever the company has had such as production plants, sales stores, equipment, human resources and assets etc.

Merger

According to Cavusgil et al. (2016), merger is another type of acquisition in which two firms, generally similar size companies, come together to form a new, larger firm.

Greenfield Investment

According to Cavusgil et al. (2016), greenfield investment refers to the running a new manufacturing, marketing, or administrative facility, instead of making acquisition existing facility. The investor usually buys a land and builds a manufacturing plant, sales subsidiary, or other facility.

Wholly owned Subsidiary

A wholly owned subsidiary refers to founding a company in the foreign market that is possessed and operated by the same owner of the company. However, all activities of this subsidiary are subject to the legislation and tax system of this foreign country (Hollensen, 2008). When a firm establishes a subsidiary, it has more control over the decisions than the license agreement and joint venture, as it has full control over its foreign activities. In cases where the companies have special know-how, the entry mode of establishing a subsidiary is usually preferred. If the risk in the target country is high, the target country is geographically far from the home country, the demand is uncertain and the competition is unstable, the joint venture entry strategy is usually preferred (Ulaş, 2009).

Companies that are willing to establish subsidiaries overseas are expected to have advantages such as having know-how, differentiated products, special marketing methods, knowledgeable about management, and talented human resources.

Foreign entry choices such as licensing, equity joint venture (EJV) and, WOS are considered one of the most essential key decisions of a company (Datta, Herrmann, & Rasheed, 2002). It is not easy to make a decision among those options. This decision usually has considerable importance since it often includes irrevocable financial and human resources commitment (Tsang, 2005). If an EJV is chosen as an entry mode, the firm must make another key decision regarding the level of equity ownership, which is entirely associated with the extent of control. Moreover, firms are inclined to internalize operations that they can carry out at a lower cost and arrange operations for contracted work to be done externally by other parties in which they can have an advantage (Klein et al., 1990).

2.5 Internal and External Factors Affecting Entry Mode Choice/ Selection

Factors that have an impact on the entry mode decision are studied in various researches. Some researchers identified different factors than each other and some categorized the factors differently.

According to Gao (2004), researchers conducted a wide range of studies to determine the essential factors affecting foreign entry modes, either by presenting new variables, applying new theoretical point of views or empirically testing the relationships between the fundamental factors and companies' entry mode decisions.

For instance, a firm's international experience and product diversification were the main drivers for entry mode choice in one of the first overseas entry type models by Stopford and Wells in the 1970s (Gao, 2004). Later, the transaction costs economics model was used to explain the relation by Anderson and Gatignon, also the role of ownership was analyzed by Hannart in 1980s and researches about external and internal factors go on as stated in table 3 and table 4 (Gao, 2004).

Table 3. Review of Antecedent Factors Affecting Foreign Entry Mode Decisions

Review of Antecedent Factors Affecting Foreign Entry Mode Decisions [a]

Antecedent Factors	Representative Studies
External Environment Factors	
• Country risk	Anderson & Gatignon 1986; Erramilli & Rao 1993
• Political instability	Sharma 2002
• Economic instability	Sharma 2002
• Level of economic development	Contractor & Kundu 1998
• FDI penetration in local economy	Contractor & Kundu 1998
• Location familiarity	Hill, Hwang, & Kim 1990
• Location advantages	Dunning (1980); Agarwal & Ramaswami 1992; Brouthers, Brouthers, & Werner 1996; Tse, Pan & Au 1997; Tatoglu & Glaister 1998
• Demand uncertainty	Hill, Hwang, & Kim 1990; Madhok 1993; Tsai & Cheng 2002
• Market potential	Agarwal & Ramaswami 1992
• Volatility of competition	Hill, Hwang, & Kim 1990
• Intensity of competition	Madhok 1993; Kim & Hwang 1992; Tsai & Cheng 2002
• Competitor's modes	Anderson & Coughlan 1987
• Host nation investment policies	Davidson & McFetride 1982; Gatignon & Anderson 1988; Deng 2003
• Institutional reform	Myer 2001
• Adequacy of infrastructure	Sharma 2002
• Cultural distance	Davidson 1980; Kogut & Singh 1988; Gatignon & Anderson 1988; Sun 1999; Palenzuela & Bobillo 1999; Contractor & Kundu 1998

Table 4. Review of Antecedent Factors Affecting Foreign Entry Mode Decisions(cont.)

Internal Environment Factors	
• Firm size	Gatignon & Anderson 1988; Erramilli & Rao 1993
• Export intensity/Foreign dependence	Bello & Lohtia 1995; Palenzuela & Bobillo 1999
• Export volume	Klein, Frazier, & Roth 1990; Bello & Lohtia 1995
• Country experience	Davidson 1980; Erramilli 1991; Deng 2003; Contractor & Kundu 1998
• International experience	Stopford & Wells 1972; Anderson & Gatignon 1986
• Brand name and reputation	Deng 2003
• Uncertainty avoidance	Mansumitrchai, Minor, & Prasad 1999
• Individualism/collectivism	Mansumitrchai, Minor, & Prasad 1999
• Service requirements	Anderson & Coughlan 1987
• Product differentiation	Anderson & Coughlan 1987
• Ownership advantages	Dunning (1980); Agarwal & Ramaswami 1992; Brouthers, Brouthers, & Werner 1996; Tse, Pan & Au 1997; Tatoglu & Glaister 1998
• Internalization advantages	Dunning (1980); Agarwal & Ramaswami 1992; Tse, Pan & Au 1997; Tatoglu & Glaister 1998
• Sales growth	Bello & Lohtia 1995
• Asset specificity	Anderson & Gatignon 1986; Klein, Frazier, & Roth 1990; Bello & Lohtia 1995; Erramilli & Rao 1993; Tsai & Cheng 2002
• Value of firm specific know-how	Hill, Hwang, & Kim 1990; Madhok 1993
• Tacitness of know-how	Anderson & Gatignon 1986; Anderson & Coughlan 1987
• Maturity	Anderson & Gatignon 1986
• Product classification	Ekeledo & Sivakumar 1998
• Research and development intensity	Stopford & Wells 1972; Sun 1999
• Type of throughput technology	Domke-Damonte 2000
• Scarcity of resources	Pak 2002

Source: Gao (2004)

Most of the literature regarding the factors affecting entry mode choice has concentrated on features of the firm expanding overseas and especially, on its resources and capabilities, and the need to obtain a maximum reduction in transaction costs. On the other side, while these two firm-related characteristics are critically important, institutions such as country-level, legal and regulative frameworks have also a great impact on transaction costs (Meyer et al., 2009).

Several empirical studies examined this topic in order to define the factors that have the most impact on entry type choice and some of them are listed in the table below. Those are categorized under four clusters such as country, industry, firm, and decision-maker specific. This clustering method shows us that entry mode selection is not a simple decision-making process since its determinants are affected by several variables. Besides, factors that have an impact on entry mode decision can be found through a structured approach including the role of a decision-maker, the organization, and the environment (Zhao, 2005). Some of the factors analyzed in the empirical studies that were prepared by Zhao (2005) were listed in table 5.

Table 5. Factors analyzed in the existing empirical studies

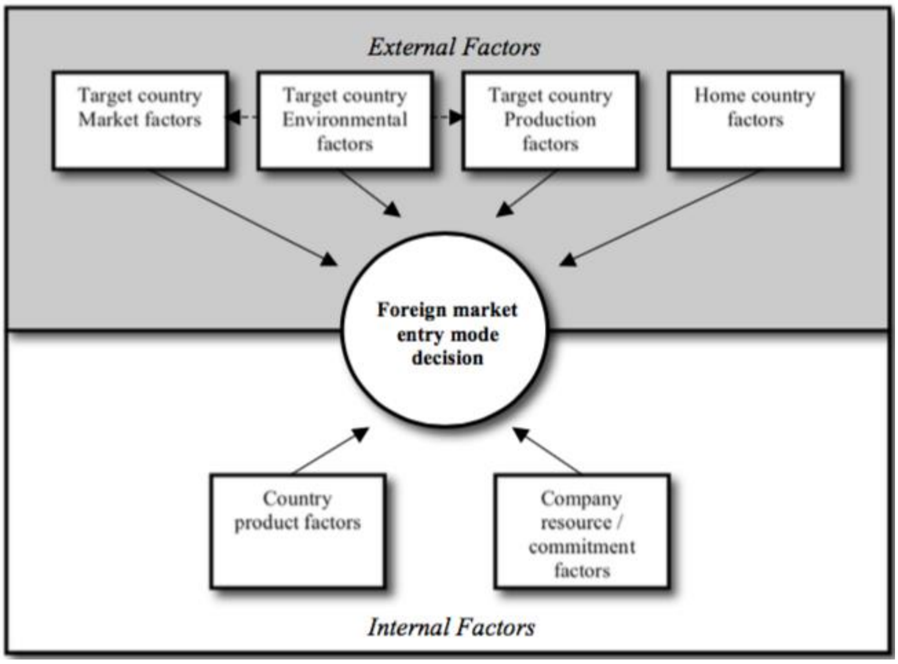
Clusters	Factors examined	Representative works
Country specific	Cultural distance	Chen and Hu (2002), Cristina and Esteban (2002), Evans (2002), Gillespie (2002), Leung et al. (2003)
	Institutional effects	Meyer (2001), Said and McDonald (2002)
	Country risk and environmental uncertainty	Cristina and Esteban (2002)
	Foreign exchange rate and host country currency	Baek and Kwok (2002)
	Immigration effects	Chung and Enderwick (2001)
	Country experience and length of diplomatic ties	Tse et al. (1997)
	Market size	Chung and Enderwick (2001), Eicher and Kang (2002), Nakos and Brothers (2002)
Industry specific	Technology transfer	Mattoo et al. (2001)
	Industry barriers and firm advantages	Siripaisalpipat and Hosbino (2000), Chen and Hennart (2002)
Organization specific	Network relationship	Coviello and Munro (1997)
	Firm size	Evans (2002), Nakos and Brouthers (2002), Leung et al. (2003)
	International experience	Reuber and Fisher (1997 and 2003), Evans (2002), King and Tucci (2002)
Decision maker specific	CEO successor characteristics	Herrman and Datta (2002)
	Role of staffing	Konopaske et al. (2002)

Source: Zhao (2005)

According to Gao (2004), a large number of studies on the antecedent factors of entry choice to a foreign market are available in the literature. Some bring new variables while others develop new theoretical models (as mentioned above), and some other empirical studies aimed at testing the relationship between influential factors and entry mode choice of the firms.

According to Root's (1994) model, different internal and external factors may contradict each other, constituting the decision of the firms regarding their entry mode choice to a foreign market. He explains that the entry mode choice of firms must be specifically distinguished into the two types such as internal and external. Internal factors are characteristics of the firm and may be controlled by the firm's management, whereas external factors are almost uncontrollable by people who make decisions on behalf of their firm. As seen in the figure 2 adopted from Root (1994), target country market factors, target country environmental factors, target country production factors and home country factors are placed under the category of external factors that shape the firm's entry type decision. On the other hand, country product factors and company resource/commitment factors are included as the two main internal factors.

Figure 2. External and Internal Factors



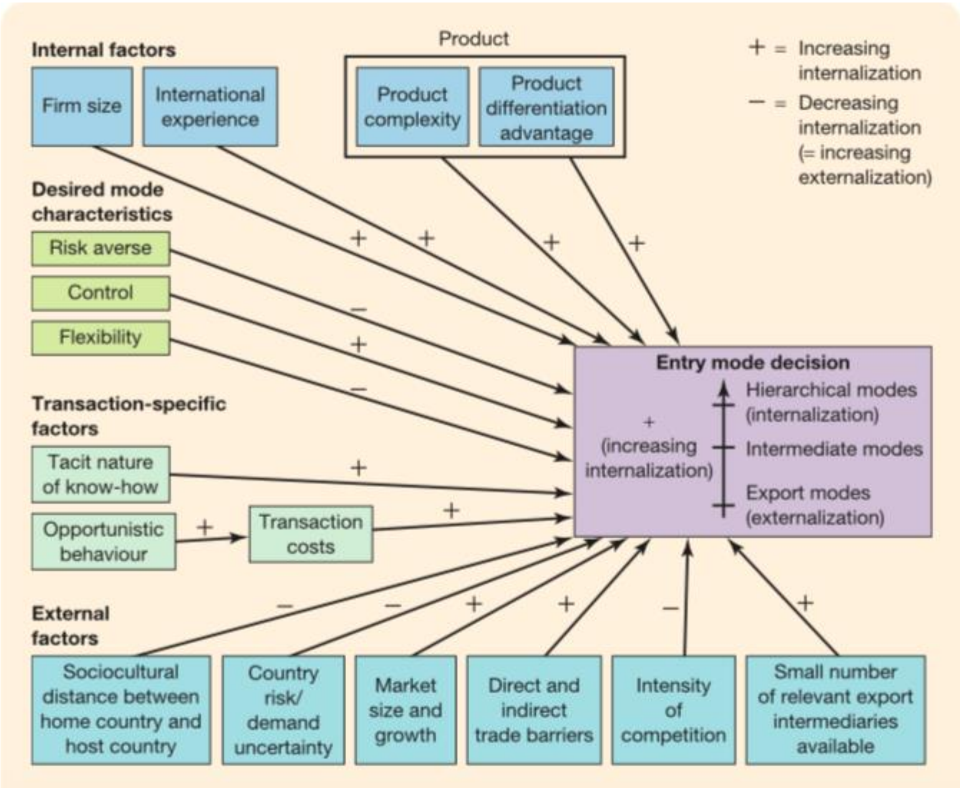
Source: Root (1994)

According to Zhao and Decker (2004), Root identified 22 different factors under these 6 categories listed in the figure 2, whereas claimed that there are still unexplored factors that are included in other researches.

An integrated model about entry mode choice behavior introduced by Koch (2001) reveals that factors influencing the market entry mode selection process are split into the two groups such as internal and external. In this regard, internal factors include company size/resources, management locus of control, management risk attitudes, market share targets, applied calculation methods, profit targets, experience in using individual entry mode in other markets. On the other hand, external factors in Koch's (2001) model includes industry feasibility/viability of foreign entry type, characteristics of the target country business environment, market growth rate, image support requirements, global management efficiency requirements, the popularity of individual entry modes in the overseas market and market barriers.

The factors that influence entry type choice according to Hollensen (2014) are presented in the figure 3. He categorizes the factors under four sections by adding desired mode characteristics and transaction-specific factors to internal and external ones. Firm size, international experience and product type with its complexity and differentiation are the major internal factors that influence the decision of a firm about what type of entry to choose. According to Hollensen (2014), each entry mode has a different internalization level, and this level is increasing from export modes to intermediate and hierarchical modes.

Figure 3. The Factors Influencing Entry Type Choice According to Hollensen



Source: Hollensen (2014)

2.5.1 Firm Size

According to Smorodina (2015), firm size refers to the existence and usability of the physical and financial capabilities of the firm.

Firm size is another essential internal factor that was studies in the past and which clearly did not provide an accurate result about the determination of entry mode decisions. Some studies show a positive correlation between the size of a firm and its choice of equity-based entry modes such as joint venture and greenfield investment instead of non-equity modes such as exporting. However, some studies found that there is no relationship or very low relationship between firm size and entry type choice, which claims it is not an important factor.

If the availability of the resources grows, the possibility of international enlargement increases basically. According to Hollensen (2014), since small and medium enterprises do not have sufficient resources to invest with a high degree of control, at least as much as bigger companies, they tend to use only export as a foreign entry mode while entering a new foreign market. With this choice, they can also reduce the risk to lose their limited resources in the case of an unsuccessful foreign investment attempt. Koch (2001) also stated that smaller firms generally have fewer entry options, as it basically has weak resources and may not run the risk of losing all with an investment plan, or sometimes its resource may enable only exporting and may not even allow choosing other entry modes. For instance, running a fully owned subsidiary or making a greenfield investment requires a considerable amount of capital and likewise higher risks.

Decker and Zhao (2005) indicated that bigger firms are more likely to prefer contractual and hierarchical modes than export entry modes while entering a new market.

However, Reuber and Fisher's (1997) research demonstrated that firm size is not a determinant for choosing entry mode, especially in the small markets. Calof (1994) also conducted a comprehensive study about the relationship between firm size and exporting behavior and found that firm size is not an important factor in a firm's export volume and the number of countries that are exported.

2.5.2 International experience

According to Smorodina (2015), international experience refers to the experience accumulated and learned by firms through their managers who lead the international operations over time. Target country experience refers to the same concept within the scope of the target country. It reduces some costs of collecting knowledge in the field to get information about the market and increases the clarity of the environment in the foreign market. Johanson and Vahlne (1977) claimed that the foreign market experience of firms with the real activities in the field reduces the lack of certainty. Learning the field through in-site experiences such as establishing operations in a target country provide concrete knowledge that gives a more robust perspective than public knowledge that can be gained through open sources.

There are three different opinions on how international experience affects the foreign entry mode decision of firms. A popular one is that when firms know the market well, they are more likely to take a risk and choose an entry mode with a higher level of control instead of sharing the profit with a local partner or only exporting. Hollensen (2014) asserted that companies that get higher international experience in the countries with low perceived psychic distance to the home country more tend to contractual and hierarchical modes than export entry modes while entering a new market, for instance establishing a wholly owned subsidiary in overseas. Secondly, according to Bilkey (1978), firms regardless of their size may enter a foreign market only by exporting method if they do not have previous experience in the target market.

Another argument supports that internationally inexperienced firms seek to choose higher ownership involvement entry modes. According to Anderson and Gatignon (1986), inexperienced firms hesitate to involve in a joint business with local investors as they do not know the local firms well, and consequently, they decide to work together with locals after they operate for a while in the market and believe that local firm experience would be beneficial for them.

2.5.3 Product

The feature of a good has influence on the choice of the foreign market entry mode decision. According to Root (1994), having differentiated goods with additional qualities that give a competitive advantage over the competitors who sell the same type of products with lower quality, provides the firm to have power on setting its price in the market. These products can have additional costs because of tariffs and transportation and they still can be attractive for customers in the target market due to their specialty or usefulness. For example, Turkish goods that are sold in some African countries attract customers despite higher prices of these products since they are of higher quality compared to most of the other foreign country products. On the contrary, goods that are standardized or have weak differentiation cannot have a higher price than the average, so that it usually requires local manufacturing. Therefore, firms that sell highly differentiated goods prefer to manufacture at home and export overseas while standard products would be manufactured in a foreign country (Root, 1994).

If a product requires after-sale service, the firm may need to establish a service center which requires some investment in the foreign country. Also, services such as engineering, tourism, consultancy, banking, catering should be given in the target country which requires some overseas investment.

On the other hand, various studies demonstrate that firms with sophisticated goods, for instance, in a technology-intensive sector, try to obtain resources or invest directly in international markets to have a higher return on investment (ROI) on their high research and development costs, so it can be considered as a factor to encourage an entry mode that requires larger level commitment (McDougall, Shane & Oviatt, 2003; Ratten, Dana, Han and Welpe., 2007; Ulrich, Hollensen & Boyd, 2014).

According to Ratten et al. (2007), studies conducted in two European countries such as Estonia and Bulgaria showed that industry can be an influential factor however, everyone is not like-minded regarding the products that were the most influential factor to entry mode decision of SMEs.

Therefore, there is no consensus on that type of product or the industry alone is a significant determinant.

2.5.4 Sociocultural distance between home country and host country

Sociocultural distance refers to some differences between the home and target countries such as differences in the business customs, language, habits, average educational level and cultural values.

When there is a greater sociocultural distance in addition to the size of the two economies, home countries are reluctant to make FDI, form a joint venture and even low level of commitments such as agents and importer office to the foreign country (Hollensen, 2014). According to Chung and Enderwick (2001), it has been advocated that when there is a high socio-cultural distance between the home country and target country, firms are not eager to take FDI mode if they enter the market first time.

Despite those suggestions, there are also other opinions that support the opposite. Some researchers proposed that a greater cultural distance incentivize home country companies to choose more equity-based entry mode. For example, empirical research of Anand and Delios (1997) also demonstrated that high-level cultural distance encouraged Japanese firms to have more control over the administration of company therefore, they are more likely to choose a higher level of ownership in entry modes such as greenfield investment or acquisition instead of a joint venture when entering a culturally distant market.

2.5.5 Intensity of Competition

According to Hollensen (2014), the higher intensity of competition in a target market, the firms will more likely to choose an entry mode that is higher level of externalization. This kind of markets seem less profitable for investors and that is why they do not want to take higher risk by committing much larger resources.

As Ulaş (2009) stated that companies tend to choose joint venture as entry mode if the intensity of competition is instable in a target market.

2.5.6 Market growth rate

When the market growth rate is high in target country, there will be more sales compared to previous years. This situation may attract companies entering the market to take more risk and choose an entry mode that requires high resource commitments. According to Koch (2001), market growth rate is a significant factor while choosing entry mode and if it seems consistent for several years, the companies are more likely to establish production or marketing subsidiaries instead of use exporting in order to make optimum profit in that market.

2.5.7 Additional researches on the factors

Many factors need to be considered while making research on entry mode determination since it is a dynamic, complicated and hardly definable field (Kumar & Subramaniam, 1997).

A previous study conducted by Lu, Li, and Wu (2018) with a sample of listed

Chinese firms that made an investment in Africa between 2000 and 2014 suggests that the firms seriously think about forming a joint venture when investing in an African country, especially if the political risk is high. Also, if the firms gained local market experience in years in an African country, it lowers their dependence on an African partner for a joint venture. The findings of that study also suggest that if there is instability in an African country, friendly relationships between home and host country governments could help lower risk for guest firms.

The first study related to factors affecting entry mode in the context of country-to-country analysis made by Hennart (1991) considered the choice decision between JV and WOS of Japanese parent companies in the US.

Baena and Cervino (2015) examined the criteria on entry mode choice of global franchise chains into emerging markets with a sample consists of 63 Spanish firms that run 2,836 outlets in total and they found that there are six most important factors affecting a franchisor's decision which are the geographical distance between the host and home country, the target market potential, unemployment rate, political stability, international experience of the firm and the efficiency of contract enforcement.

A study (Maekelburger, Schwens, & Kabst, 2012) conducted with a sample of 206 SMEs analyzing the relationship between entry mode decision and asset specificity as factor suggests that knowledge safeguards (international experience, host-country network and imitation) and institutional safeguards (property rights protection and cultural proximity) are decreasing the importance of asset specificity on the choice of equity. In other words, international experience, host-country network and imitation and property rights protection and cultural proximity are also essential factors that affect the entry mode decision of SME's executives.

In most of the previous studies, transaction cost theory was conducted to understand the effect of a firm's asset on ownership decision in entry type selection in the foreign market, whereas, in the case of Africa, political risk related factors are more associated with entry type choice and these factors have a more powerful influence on investors in their decision (Lu et al., 2018).

Recent studies suggest that if there are high political risks in an African country, the home company can benefit more from choosing JV as the entry mode. The firm's host country experience and its home country's foreign aid to the host country make it more flexible to choose other investment modes (Lu et al., 2018).

CHAPTER 3

TURKEY-AFRICA RELATIONS

3.1 Introduction to Turkey-Africa Relations & History

Turkey has had close historical ties with Africa. It is known that the existence of the Ottoman Empire on the African continent was not limited only to the north of the continent and but also it had important political and economic activities in the central, southern and eastern regions.

In this sense, various historical events such as controlling Suakin Island– located in today’s Sudan which had a strategic role in the region; the establishment of the Ethiopian Province by Özdemir Pasha in 1555; Hatt-ı Istivâ Province that was established in 1876 through the Ottoman’s Egyptian Khedive located within the borders of today's Uganda; the Ottoman activities held in Mombassa –today’s Kenya in as early as 16th century in the Swahili lands and controlling of Massawa in Ethiopia in 1536 –today’s Eritrea; along with controlling Somalia in 1520 including Zeila and Berbera ports had an important role to bring traders from different part of the world together and show that the geographical borders of the empire in Africa have occupied a large area in East Africa. Ottomans also contacted with the Zanzibar Sultanate, one of the most powerful sultanates in Africa and developed formal relations in the late 19th and early 20th centuries. Moreover, the struggles between the Ottoman Empire and the Portuguese forces to control the Red Sea and Indian Ocean **coasts** in the 16th century was another example how Ottoman was active in the region (Babavatan Uğur, 2005).

Furthermore, according to Babavatan Uğur (2005), Ottoman Empire also established relations based on trade and religion with Bornu Sultanate which was a prominent power in the lands of today’s Niger, Nigeria, Cameroon and Chad located in Central Africa in the 16th century. For instance, The Sultan of Bornu lived in 1580-1617 had bought firearms from the Ottomans, he also demanded from Ottoman to maintain security in pilgrimage routes at that time.

Today, Turkish businesspeople may see the help of a first impression of previous historical relations in their trade relations in some countries. Also, Turkey tries to use its past presence in the region as soft power and closely work with some African governments to provide opportunities for Turkish investors in the region.

3.2 Policies for Opening to Africa

In the late 1960s and 1970s, Turkey started to develop its diplomatic relations with Sub-Saharan African (SSA) countries. Namibia, Rhodesia, Zimbabwe and Eritrea are some examples of SSA countries that received humanitarian aid from Turkey. Besides, Economic Technical Cooperation Agreement (ETCA) was signed with Sierra Leone and Somalia as cooperation in trade relations, and an official visit by the Turkish government was paid to Ethiopia, Tunisia, and Egypt at that time (İpek & Biltekin, 2013).

In 1998, Turkey adopted its ‘Opening to Africa Policy’. The main priority of this initiative was to improve and diversify trade relations with the continent (Tepeciklioglu Eyrice, 2017). In the following process, Turkey became an observer country in 2005 and strategic partner of the African Union in 2008, and has also been accepted as a non-regional member of the African Development Bank in 2008 and then approved as 26th non-regional member of the Bank in 2013 (Ministry of Foreign Affairs of Turkey, 2019). Also, Kirişçi (2009) remarks that the lobbying of Turkish companies and business associations had a crucial role in the improvement of the Opening Policy. ‘Opening Policy for Africa’ gave place to ‘Policy of Partnership with

Africa' in 2013 which aims at establishing a mutually reinforced political-economic partnership between Turkey and African countries.

In this context, cooperation agreements in various fields such as economic, military, cultural, technical and scientific were signed. Ministers of African countries were invited to Turkey to increase cooperation. Also, reciprocal investment and business meetings, and launching business councils and joint chambers of commerce with some of the African countries were encouraged (Özkan, 2012; Hazar, 2015).

3.3 Current Situation in Bilateral Trade Relations

Concrete examples of some studies carried out until today to accelerate business relations with Africa at the governmental level are presented in this section. As of December 2018, Turkey has signed 'Trade and Economic Cooperation Agreement' with 46 countries, 'Agreement for the Promotion and Reciprocal Protection of Investments' with 28 countries and 'Avoidance of Double Taxation Agreements (DTAs)' with 12 countries in Africa. Total trade volume between Turkey and the whole African countries has reached $20.6 million in 2017 from $3.6 million in 2003. 'Joint Economic Commission Meetings (KEK)' have been arranged with 27 countries and the Turkish Foreign Economic Relations Board (DEİK) established 'Business Councils' with 43 countries in Africa (Durul, 2018).

Apart from those developments, the best indicator for state of affairs in the bilateral relations is statistics of increasing trade and corporate cooperation between Turkey and Africa (Özkan, 2010). The trade data between the two regions illustrates that there is an increasing trend in the bilateral trade volume. In other words, both Turkish and African business people or companies are focusing more on mutual markets over the past decade.

According to Turkey-Africa Forum (2019), Turkey's bilateral trade volume with Africa has reached 18.9 billion USD, rose three-fold from the year 2003 as exports totaled 11.6 billion USD and imports 7.1 billion USD in 2017, with a surplus of 4.5 billion USD on the Turkish side. Turkey's relations with the south of Sub-Saharan Africa began to develop, especially with trade and business, as her increasing focus started by seeking more opportunities in the region where Turkish commercial activities were less active compared to North Africa before. It is also stated that the government's official policies mentioned in the second section of 'Turkey-Africa Relations' has helped this growth of bilateral business relations.

According to Turkish Statistical Institute (TUIK) (2019), as seen in table 6, table 7 and figure 4 respectively below, while Turkey's total trade volume with Africa constituted around 8.4 billion USD (*export: $4.5 B; import: $3.9 B)* in 2006, it has reached 20.1 billion USD (*export: $14.1 B; import: $6 B),* more than doubled within 7 years, which is a significant increase. However, it has had a slight decline to 16.7 billion USD by the year 2016 and then there has been a rising trend in the total trade volume from 2017 to today. 2019 saw the highest level between Turkey and Africa with a total number of 21.5 billion USD.

Table 6. Turkey's trade with Africa, 2006 – 2019 (million USD)

Turkey's trade with Africa, 2006 -2019 (million dollars)

Export	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
North Africa	3,096	4,029	5,850	7,415	7,025	6,700	9,443	10,041	9,757	8,527
Other Africa	1,469	1,946	3,212	2,738	2,257	3,633	3,913	4,103	3,996	3,921
Total	4,565	5,975	9,062	10,153	9,282	10,333	13,356	14,144	13,753	12,448

Import	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
North Africa	1,676	2,285	3,535	2,237	3,098	3,342	3,308	3,508	3,435	3,006
Other Africa	2,233	2,821	2,060	1,700	1,725	3,424	2,613	2,522	2,502	2,092
Total	3,909	5,106	5,595	3,937	4,823	6,766	5,921	6,030	5,937	5,098

Export	2016	2017	2018	2019
North Africa	7,755	7,524	9,477	10,302
Other Africa	3,650	4,148	4,973	5,583
Total	11,405	11,672	14,450	15,885

Import	2016	2017	2018	2019
North Africa	3,200	4,142	4,593	3,858
Other Africa	2,154	3,033	2,454	1,757
Total	5,354	7,175	7,047	5,615

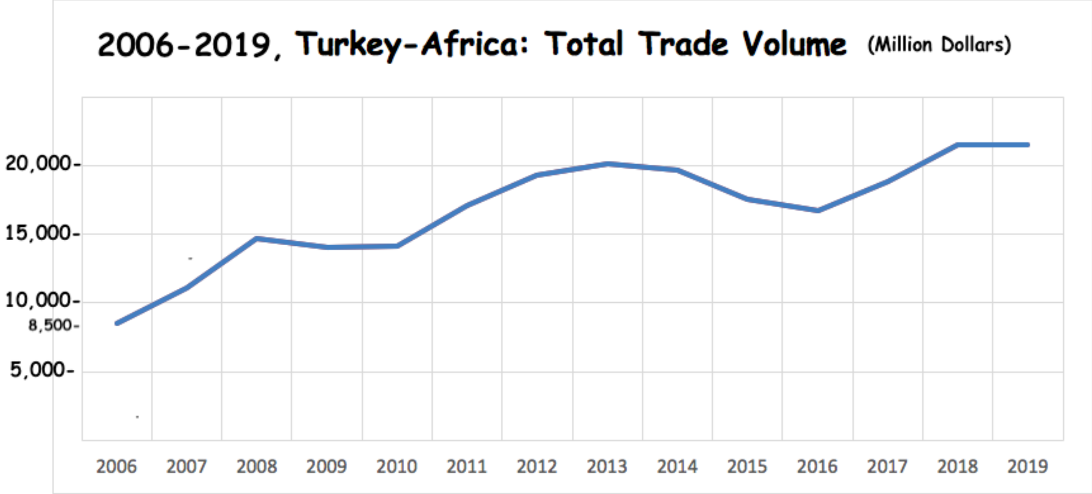
Source: TUIK, Foreign Trade Statistics, http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

Table 7. Total Trade Volume Between Turkey and Africa, 2006 – 2019 (million USD)

Turkey-Africa: Total Trade Volume	
2006	8,474
2007	11,081
2008	14,657
2009	14,090
2010	14,105
2011	17,099
2012	19,277
2013	20,174
2014	19,690
2015	17,546
2016	16,759
2017	18,847
2018	21,497
2019	21,500

Source: *TUIK, Foreign Trade Statistics, http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046*

Figure 4. Total Trade Volume Between Turkey and Africa, 2006 – 2019 (million USD)



Source: *TUIK, Foreign Trade Statistics, http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046*

The term "Other Africa" said in the tables can be considered as Sub-Saharan Africa. Countries that are taken place in this study are located in Sub-Saharan Africa, and also North Africa constitute more than half of the trade with Turkey in Africa, therefore it would be beneficial to analyze trade volume only between Turkey and Sub-Saharan Africa.

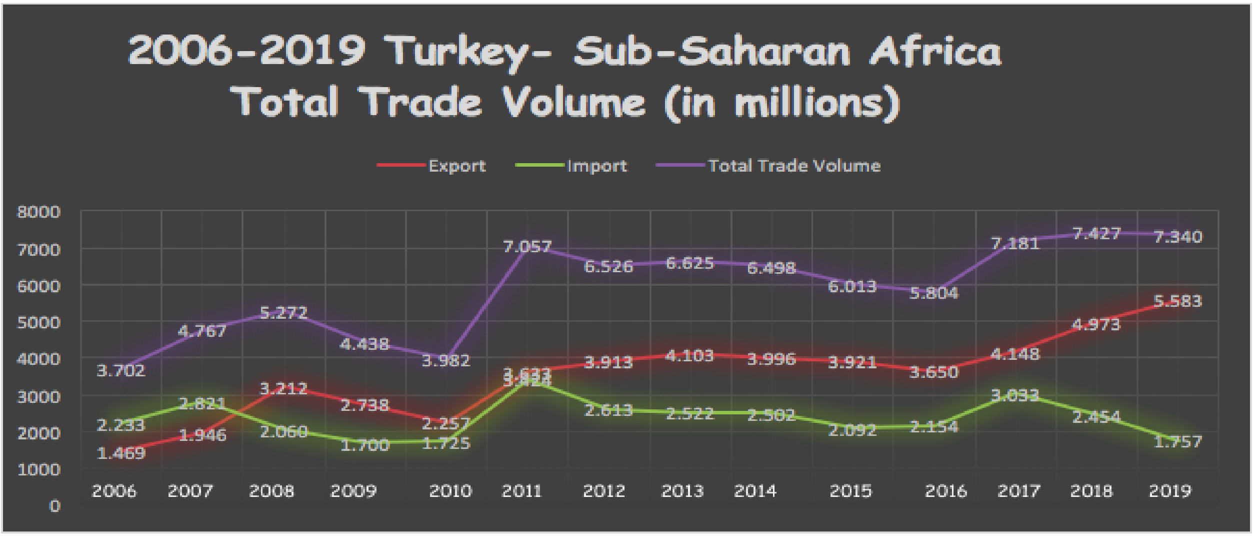
Table 8. Turkey's trade with Sub-Saharan Africa, 2016 – 2019 (million USD)

Turkey- Sub-Saharan Africa:	Export	Import	Total Trade Volume
2006	1,469	2,233	3,702
2007	1,946	2,821	4,767
2008	3,212	2,060	5,272
2009	2,738	1,700	4,438
2010	2,257	1,725	3,982
2011	3,633	3,424	7,057
2012	3,913	2,613	6,526
2013	4,103	2,522	6,625
2014	3,996	2,502	6,498
2015	3,921	2,092	6,013
2016	3,650	2,154	5,804
2017	4,148	3,033	7,181
2018	4,973	2,454	7,427
2019	5,583	1,757	7,340

Source: TUIK, Foreign Trade Statistics, http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

As seen in the table 8, bilateral trade volume with Sub-Saharan Africa nearly doubled while export with 1.4 billion USD, import from the region increased between the years 2006 and 2011. From 2011 to 2019, despite there is a very little positive change in total volume, exports of Turkey have increased by more than fifty percent (*from $3.6 B to $5.5 B*) while her imports decreased to half (*from $3.4 B to $1.7 B)*. Therefore, it is seen that the sale of Turkish exporters to Sub-Saharan Africa has been considerably increased compared to the near past while imports of Turkish firms fluctuates year by year and actually, shows no sign of a rise at the end. Also, export, import and total trade volume by year (2006 - 2019) between Turkey and Sub-Saharan Africa is clearly seen in figure 5.

Figure 5. Turkey's total trade volume with Sub-Saharan Africa, 2006 – 2019 (million USD)



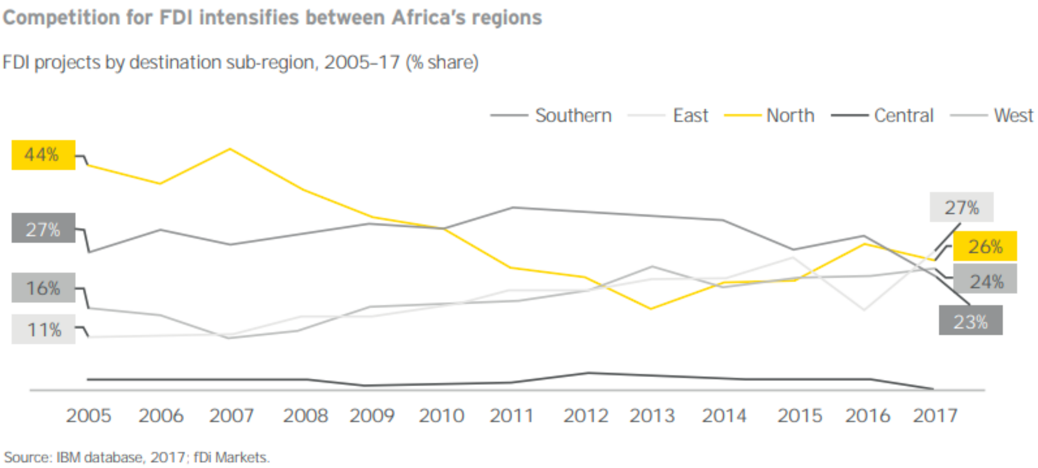
Source: TUIK, Foreign Trade Statistics, http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

3.4. Incoming FDI shares of each Region in Africa

The African continent is comprised of five sub-regions, namely Central, East, West, North, and Southern Africa, and 54 countries are included in the total. According to Ernst & Young (2018), four of the five sub-regions (East, West, North and Southern

Africa) hold an approximately equal share of the continent's total FDI projects except for Central Africa in 2017. Each region receives nearly 25% of the total FDI while Central Africa receives a lesser of investment from foreign investors. As seen in figure 6 (Ernst & Young, 2018), competition for FDI increases among Africa's regions.

Figure 6. FDI Projects by Destination Sub-Region in Africa, 2015-17 (% share)



Source: Ernst & Young (2018)

3.5. Turkish FDI in Africa

Foreign direct investments in Africa have been increasing compared to the past, in this sense, Turkish companies also increase their investment in the continent. Turkish investors started to explore Africa as an investment region in recent years. According to Tepeciklioğlu (2017), especially small- and medium-size enterprises (SMEs) increased their attention for more opportunities; the amount of total Turkish direct investments has increased in this period. Besides, as Turkey-Africa Forum specifically notes that particularly as African markets have become more reachable, investments of Turkish SMEs started in the region (Turkey-Africa Forum, 2019).

The Worldfolio (2016) claimed that Turkish investors focus on the countries such as Ethiopia, Cameroon, Cote d’Ivoire and Nigeria in sub-Saharan Africa, although North Africa received more than doubled investments between 2009-2014. It is also said that total Turkish FDIs have reached about $6 billion in Africa in 2016.

Moreover, as the Ministry of Foreign Affairs of Turkey (2019) quoted from a report belonging to the Financial Times stated that the largest number of employments created in 2014 by Turkish FDIs with the number of 16,593 people among FDIs made by other countries in Africa. It is also said that many firms that invested in Africa use home-produced resources and export final products to third countries. Furthermore, total projects undertaken by Turkish contractors have amounted to almost 55 billion USD with more than 1,150 projects.

Besides, in contrast to some other countries engaged in Africa who use their own labor force for their investments, Turkey has helped create local employment. For example, in 2015, the employment of 30,000 people in Ethiopia, which was the top number of local people employed by a guest country in the host African country, was created by Turkish projects (Turkey-Africa Forum, 2019).

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1 Methodology, data collection method and survey design

The case study has been chosen as the methodology for this research. According to Noor (2008), as a research method, the case study is expected to concentrate on a specific problem, unit of analysis, or typical quality, rather than the whole picture of the organization. This method allows a researcher to learn how real-life work is realized when various sources of evidence are taken into consideration. Likewise, the present study focuses on only the entry mode decision and its determinants in a company.

According to Rowley (2002), exploratory, descriptive, and explanatory are the three kinds of a case study. In addition, case study research may include both quantitative and qualitative approaches. Different sources such as direct detailed observations, interviews, and documents can be used in a case study. Archival records, direct observation, documentation, interviews, participant observation and physical artifacts are considered as the major source of evidence by Yin (2018). In case studies, open-ended, focused and structured forms are available to conduct interviews and they are considered as the main data collection method (Tellis, 1997).

An interview provides researchers with qualitative data about a phenomenon, which is normally difficult to find in other sources (Easterby-Smith, Thorpe & Jackson, 2015). Different kinds of interview exist: without preparing any specific questions before and having a free discussion between the interviewer and the interviewee is called an unstructured interview; structured interview includes a list of questions that need to be asked, and finally, semi-structured is a mixture of the other two types (Easterby-Smith, Thorpe & Jackson, 2015).

According to Yin (2018), topics about business can sometimes be examined only under exploratory research to see formulating questions and hypothesis testing; explanatory research is used generally to describe the process in an organization or firm; on the other hand, descriptive statistics is used to make a connection about what is realized and what was the expectation before that.

The method in the present study is a mixture of both exploratory and explanatory case studies because complicated real-life decisions are deeply enlightened by the evidence that are derived from the companies chosen as respondents.

Examining several companies strengthens the accuracy, validity and reliability of the results by providing a holistic view on the topic (Noor, 2008). However, there is no consensus on the exact number of cases that should exist in a study to reach accurate results.

Five companies entered Kenya's market were chosen as the focus of our study. Kenya is very special case on their own as there are not many studies focusing on these countries specifically, it is also special because fewer studies have focused on developing countries as well as least developed countries regarding foreign entry mode decisions. Moreover, the selected respondents from these companies are responsible for their overseas operations to Kenya, so that they could give clear information about how the entry type related decision made within the firm.

The data collection process, in addition to academic sources, was completed through personal semi-structured interviews and a questionnaire was given to the foreign country managers or owners of these companies who closely followed or managed the entering process to the foreign market.

The questionnaire and survey were prepared to be used in interviews in order to measure the internal and external factors and their effects on the entry mode decision making processes of Turkish companies who entered the Kenyan market. Respondents consisted of owners, board members, foreign trade directors and heads of export departments. Respondents were asked to give a brief description of the nature of their business and to talk about their internationalization process. Later they were asked to rate the internal and external factors for their level of importance on the decision-making process.

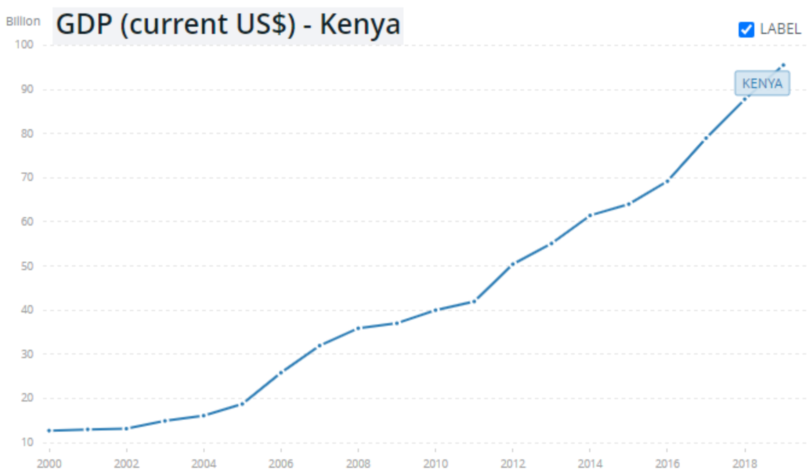
4.2 Description of the selected country - Kenya

Kenya is an East African country that is neighbor to five countries Uganda, South Sudan, Ethiopia, Somalia and Tanzania.

According to the Ministry of Foreign Affairs of Turkey (2020), there is political stability in Kenya, whose democracy experience is longer and uninterrupted compared to other countries in the region. Elections have been held regularly since the beginning of the multi-party system in 1991. Kenya is governed by a presidential system and has a unitary state structure. The President is directly elected by the people. The current President has been in power since 2013. Kenya attaches importance to economic integration in the African continent, especially in its region. In 2018, Kenya became one of the first countries that completed the internal ratification process of the African Continental Free Trade Agreement. Most of the infrastructure investments are made by China. The biggest creditor and top exporter country to Kenya is also China.

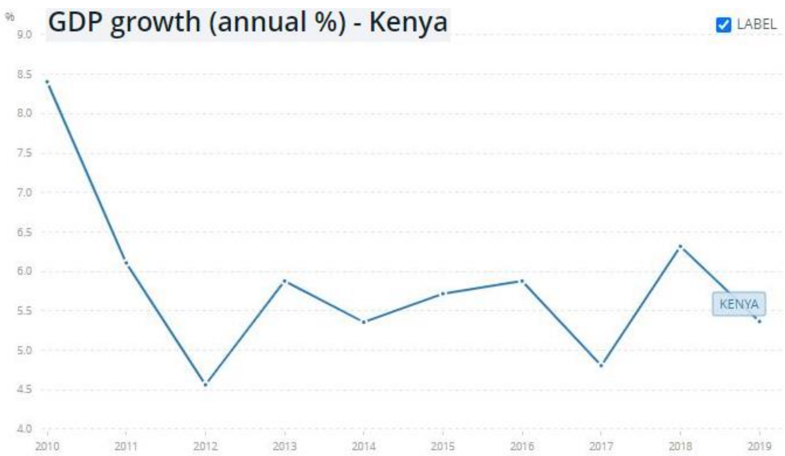
Kenya is also another African country that has displayed speedy economic growth since 2000. As seen in World Bank (2021) data as figure 7 demonstrating the GDP (in billions) of Kenya between 2000 and 2019, it is obvious that the economy has risen by almost ten times in 20 years, rose from 9 billion US dollars to around 90 billion US dollars. Figure 8 (World Bank, 2021) which shows GDP growth rates between the years 2010 and 2019 showing that it has an average growth rate of 5.5% in the last ten years, which makes Kenya one of the fastest-growing countries in Africa.

Figure 7. Kenya's GDP, 2000 – 2019 (annual billion USD)



Source: World Bank (2021)

Figure 8. Kenya's GDP growth rate, 2000 – 2019 (annual %)



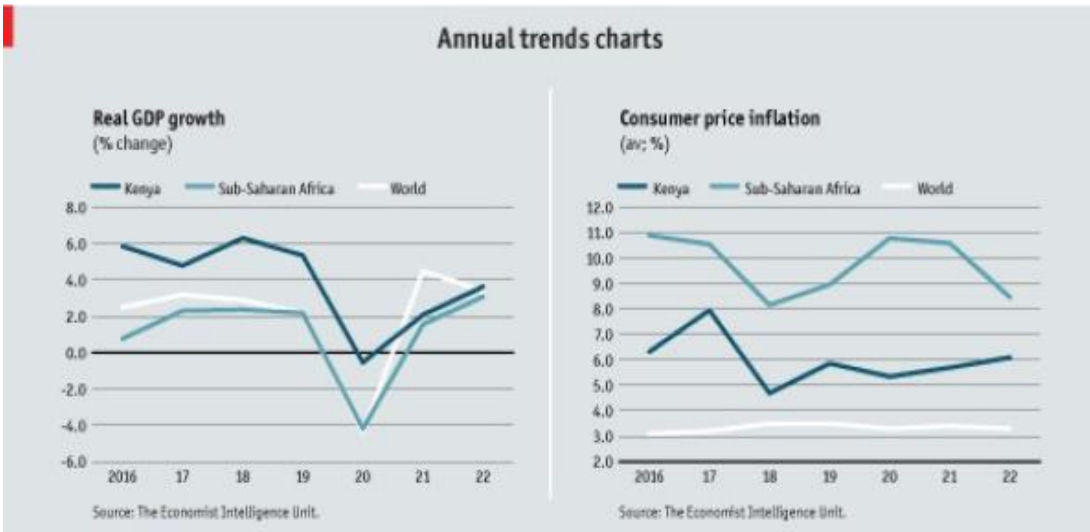
Source: World Bank (2021)

According to the Ministry of Foreign Affairs of Turkey (2021), Turkey-Kenya bilateral trade volume increased to $251.5 million in 2020 (Turkey's exports: 227.5 million USD; imports: 24 million US dollars) from $234.3 million (Turkey's exports: 217.5 million USD; imports: 16.7 million US dollars) in 2019, which was also$222.6 million in 2018.

According to Economist Intelligency Unit (2021), despite the fact that covid-19 outbreak has seriously affected the daily life in Kenya, it has not imposed a crucial risk on the overall stability. Economist Intelligency Unit's forecast on next 5 years-period is optimistic, expecting that Kenya will continue to perform in a good health.

According to Economist Intelligency Unit (2021), the two figures shown in figure 9, which are respectively real GDP growth and consumer price inflation between the years 2016 and 2020 as well as forecast for the years between 2020-2022 shows the Kenya has healthier economic trends compared to the average of the countries in the Sub-Saharan Africa.

Figure 9. Kenya's Real GDP growth rate and Consumer price inflation, 2016 – 2020 & Annual Forecast, 2021 - 2022



Source: Economist Intelligency Unit

4.3 Description of the selected companies

Company A (Kenya)

Company A is a multinational company, headquartered in Istanbul, Turkey, with over 30 years of experience in the fast-moving consumer goods industry, producing items under the hygiene, home care and tissue categories and has 14 global brands. The firm has subsidiaries in 10 countries around the world, namely Turkey, Bulgaria, Algeria, Iran, Egypt, Morocco, Russia, Nigeria, Pakistan and Kenya. Company A has more than 15000 employees in its all operations and it exports its own products to more than 100 countries in the world.

One of its products, called M, is a market leader in Nigeria, Algeria, Iran, Cameroon and among the top two players in Turkey, Egypt, Tanzania and Morocco. It is ranked world's fifth biggest brand of baby diapers and the largest tissue producer in the Middle East, Eastern Europe and Africa by capacity.

Company B

Company B with 100 employees has been operating in the concrete industry for 3 years in Kenya, with an annual turnover of around 10 million USD. It manufactures ready-mix concretes in Kenya, but its main working field is normally the construction sector. It is a joint venture with a local African company and has no additional branch in other countries for this industry. It established two production facilities in Mombasa and manufactures all types of ready-mix concrete, transportation of concrete and also provides concrete pumping services. Besides, it has a plan to establish a 3rd plant in the capital, Namibia. In the construction sector, the company has international experience more than 15 years.

Company C

Company C was established in 1976 to produce engine drive and transmission organs and similar equipment but concentrated its activities on diesel engine, tractor production and spare parts. The company has around 35 years international experience in the same industry. Turkey's first diesel engine manufacturer, providing the same brand tractors with diesel engines and also specifically produce diesel engines for some companies that order. Continuous change and innovation are the common goals for this company to achieve high-quality production and perfection that will meet all customer expectations. The company has more than 500 employees. It makes exports, sales distributors and open franchising in the foreign markets. Around 65 percent of all tractor production and about 85 percent of the total truck export of Turkey have been made by this company. North America and Canada constitute 40 percent of its exports while Africa constitutes around 15 percent of its exports that are compromised of the countries such as Algeria, Somalia, Tunisia and Kenya. The company entered the market with export mode.

Company D

Company D was found in 1988 to sell clothing and shoes as wholesale brand in the apparent industry. Establishing first store outside Turkey in 2009, the company is currently operating in 35 countries. The company entered Kenyan market in 2016 with a retail store as its first store in Sub Saharan Africa. As of 2020, the company has reached around 3 billion USD net sales, about 50 thousand employee, more than 800 million USD export and more than 900 stores in the world, including some of African countries such as Egypt, Morocco, Democratic Republic of Congo, Cameroon, Senegal, Zambia, Ghana, Côte d'Ivoire and Uganda as well as Kenya. The company does not make any production, instead it sells outsourced textile products both in

Turkey as well as overseas.

Company E (Kenya)

Company E was found in 1960 to repair and sell shoes at the beginning. Currently, it sells some textile goods, wallet, belt, bag, suitcase, accessories and shoes only. It opened its first store abroad in 2015. The company employs more than 10 thousand people. Currently, it has more than 450 stores in Turkey and 100 stores abroad, in 21 different countries and three of them are located in Kenya. The company is selling only shoes at its stores in Kenya. The first store in Kenya was opened in 2019 December. It aims to open 7 stores more in Kenya in 2021. The company make production in Turkey. Also, it has small production facilities to produce non-woven shopping bag in Morocco and accessory, socks, bag in Kazakhistan. At its stores in Kenya, the company sells only shoes made by itself in Turkey.

Table 9. Overview of Selected Companies

Selected Companies	A	B	C	D	E
Entry mode	Greenfield Investment; Wholly Owned Subsidiary (FDI)	Joint Venture	Export	Greenfield Investment; Wholly Owned Subsidiary (FDI)	Greenfield Investment; Wholly Owned Subsidiary
Founded in	1937	1996	1976	1988	1960
Firm Size	Large	Medium	Large	Large	Large
Annual Sales in Kenya	+30 M USD	+10 M USD	3-4 M USD	+15 M USD	+5M USD
Industry	Hygienic products	Ready mix concrete	Trucks & spare parts	Textile products & shoes	Shoes
International Experience in general (in years)	30	15	35	12	6
First sale to Kenya occured in (year)	2014	2018	2016	2017	2019 December
Experience in Kenya by 2021 (in years)	7	3	5	4	1,5

4.4 Purpose of the Study

The main purpose of the study is to identify all the internal and external factors and prioritize the most influential ones on the choice of foreign entry modes of Turkish companies to African countries such as Kenya. The hypotheses below will be tested in this thesis.

4.5. Hypotheses of the research:

1st Hypothesis: Target country environmental factors have an impact on Turkish companies' entry mode decision to the African market.

- H_1: Companies are more likely to prefer entry modes that require low resource commitments in the target country that has economic and political instability.

2nd Hypothesis: Target country market factors have an impact on Turkish companies' entry mode decision to the African market.

- H_{2a}: Companies are more likely to prefer entry modes that require high resource commitments in the target country with high economic growth rates in recent years.

- H_{2b}: Companies are more likely to prefer entry modes that require low resource commitments in the target country where there is a low intensity of competition in the identified sector.

3rd Hypothesis: Internal factors have an impact on Turkish companies' entry mode decision to the African market.

- H_{3a}: Small size companies are more likely to prefer entry modes that require low resource commitments
- H_{3b}: Companies with target country experience are less likely to prefer entry modes that require low resource commitments.

CHAPTER 5

SURVEY RESULTS & HYPOTHESIS TESTING AND FINDINGS

Answers collected are seen in table 10.

Table 10. Survey Results

Very Important	Important	Neither Important nor Unimportant	Unimportant	Very Unimportant
1	2	3	4	5

External Factors from foreign country	A	B	C	D	E
Demand Certainty/Uncertainty	2	1	1	5	4
Volatility of Competition	2	4	3	5	4
Intensity of Competition	1	4	3	5	4
Market Size	1	4	1	5	2
GDP Growth Rate	1	4	3	5	2
Political Stability/Instability	2	1	3	5	2
Economic Stability/Instability	2	1	3	5	2
Level of Economic Development	2	1	2	5	2
Sociocultural Distance	3	5	3	5	4
Direct & indirect Trade Barriers	2	2	3	5	4
Geographical Distance	2	4	3	5	4
Quality of Raw Materials	2	1	3	5	4
Cost of Raw Materials	2	1	3	5	4
Transportation Infrastructure	2	1	3	5	4
Internal Factors					
Firm Size	2	2	3	5	2
International Experience	1	5	2	5	3
Target country experience	1	5	5	5	4
Experience in using same entry mode in the past	1	5	2	5	1
Type of your product or service	1	1	1	5	1
Market share/profit targets	1	1	3	5	1

5.1 Case Study: Company A

Company A sells diapers and sanitary pads in Kenya. Its goods are very well known for their high quality. It used to export those products to the Kenyan market in the past before it established a wholly owned international sales subsidiary.

The current country manager for Kenya has been working in Company A for 3.5 years, he used to be responsible for all export activities to five neighboring African countries in the East Africa region, namely Kenya, Uganda, Burundi and Ruanda. In 2018, 3 years ago, after the country manager spent around a year in Kenya, the company decided to change its entry mode decision from exporting to wholly owned subsidiary. He also indicated that the company started to export Kenya a few years before its establishment of the subsidiary. In the meantime, he spent some time to make market research for feasibilities in the five countries and work through accelerating the sales volume before changing its entry mode to a hierarchical in Kenya. The company has experience around 30 years in the same industry in general. He also stated that the company has more experience in Nigeria than it has in Kenya, started its activities around 15 years ago in Nigeria and it has currently production plant in Kenya.

Internal factors such as international experience, target country experience, type of the product, market share/profit target; external factors such as market size were the most important internal and external factors stated by the country manager of the company A on their decision to open wholly owned subsidiary in Kenya.

He highlighted that Kenya was the largest market with a high GDP growth rate among these five neighbor countries he was responsible for, explaining that he used to visit Kenya first in the region to meet its customers, and then paid visits to the other four countries from there. Following his researches and some experiences in the field, the country manager recognized that the size of the Kenyan market in its industry was quite large. One of the main reasons was the market size and high growth rate for choosing wholly owned subsidiary as its entry mode. Because its market size is larger, the growth rate is high, and there is a good performance on the stability of economy and politics compared to neighbor countries, the company decided to change its entry mode decision from exporting to wholly owned subsidiary. The company wanted to have 100% control on its activities so that they would become flexible in making decisions. The banking system and regulations were also important in making this decision because they needed to trust the financial environment while making an investment in the country, the country manager stated. According to the survey results, market size and intensity of competition among market-based factors are the most important foreign market-based external factors that affected the company's decision, while all other factors except sociocultural distance were important on its entry mode decision.

As seen, political and economic stability was quite important in the decision to change its entry type from export to a hierarchical mode, although they were not the only determinant, because a neighbor country Tanzania was also similar in terms of these indicators. Therefore, it can be said that this case supports our 1st Hypothesis in favor of economic and political stability according to data collected through both interviews and surveys.

Company A established its wholly owned subsidiary in Kenya two years ago. Before choosing this entry strategy, the country manager spent 1 year for a sub-study period about the establishment of the subsidiary, understanding the product, learning the market and field, exploring distribution channels and researching how to invest in the brand. The country manager traveled the country alone. Finally, considering the 135-page feasibility report, the company decided that it is the best choice to enter the market. “As a company, we have both vision and financial strength, we are also very experienced internationally” he added. There are around 50,000 grocery stores in Kenya. Company A sells to distributors, wholesalers and sometimes directly to the groceries. In addition, a minimum of 5 years projection is usually made in the company when entering the market. At the end of the second year, company A was planning to become the second-largest company and reached its target so far. It also aimed to be the leader at the end of 2021, the 3rd year of the investment.

The company invested a large amount of money in research and development in Turkey not only to establish all the production facilities but also to enhance the quality of goods. Goods are world-standard and high quality, making them differentiated from many other brands. For example, thanks to water-resistant barriers that prevent leaks, M brand diaper provides babies full protection, which gives a competitive advantage to the company against most of the competitors.

One of the strategies of the company was to explore the number of children, fertility rate, the number of the daily and yearly usage of the product, and the percentage of annual usage in the country. It was found that approximately 750 million diapers were consumed in a year as a result of researches conducted.

Market share of company A recently exceeded 18%. One of the biggest competitors left the market because it could not compete. Another strong competitor’s share dropped from 41% to 21% and even stayed behind company A in some cities of Kenya. Apart from this case, additional information is that company A launched a production factory in Nigeria, and its biggest competitor stopped its facilities after their entry, so the company has more international experience regarding the sales of the same product.

Moreover, before company A entered the market with a hierarchical mode, the four different brands/firms used to dominate the market, in which they had a 70% share of all market. The number of other brands in the industry was around 30, they used to share the remaining 30%. “Since Kenya is on the route of the direction to China and African market is newly discovered, there are so many firms in the market” the country manager added. This shows that there was strong competition in the industry. Besides, some of the biggest brands were from Europe. Especially, and one of the four biggest brands left the market after company A changed its entry mode and increased its sales in the market. Therefore, the country manager advised the board of directors, saying that it was not much meaningful for company A to only export and to work only with local distributors and that there was an opportunity to become the biggest player in the Kenyan market. Later, the company has noticed the investment opportunity in Kenya and decided to have a wholly owned subsidiary in 2018. The country manager describes the company as a risk-taker and that it uses no leverage and uses only its own capital when investing. While the persistent high economic growth rate of the industry in the country for years was an important factor in choosing this mode, surprisingly, the intensity of competition as well as the fluctuation in the competition was also important for the company because as explained, the company wanted to take the risk and was confident that it could capture a large amount of the market share. As we can see here, hypothesis 2^a for company A is supported in favor of a high economic growth rate because the firm chose hierarchical entry mode in the Kenyan market where there has been an average increase of 5.5 percent. However, it is not possible to say the same for the hypothesis 2^b. The hypothesis 2^b suggests that firms are more likely to choose the export entry modes when there is a high competition but, the company even changed its entry mode from export to a hierarchical mode in a highly competitive environment where there are around 30 different companies from various countries in the same sector.

“About the challenges before entering the market, first, you have to look at the challenges that individuals face”, the country manager said. “As an expat, you come to a country you have never known, it is a country with different conditions when compared to your own country” he added. He said social cohesion is difficult, especially adaptation to the country conditions which would take at least two months were not easy. The person who will go there and set up the business must adapt to the environment first. For other challenges, company A worked with some multinational consultant companies that are based in Kenya to overcome some obstacles such as bureaucratic issues and some business-related problems. While these challenges for individuals have existed, they were not much applicable to the company A because it has had huge international experience that helped to cope with other challenges. The company had more than 30 years of international experience, had export activities on the target market for only a few years, was highly financially capable, and it is currently working with hierarchical entry mode in the country, so the hypothesis 3^b is supported since they used to export prior to WOS in Kenyan market. This hypothesis is also supported with the fact that the company has much more experience in Nigeria than Kenya, and its entry mode in Nigeria consitutes a larger amount of resource commitment and a higher risk. In addition, hypothesis 3^a is also supported since the company is quite large as described.

5.2 Case Study: Company B

Company B jointly established a production facility with a local partner in Kenya three years ago. The plant cost around 5 million dollars. The long-term target was to become the leading firm by providing customers the highest quality concrete in the country. The company chose the joint venture entry mode with a local company.

The partner firm does not have experience in concrete production, but it has a cement manufacturing facility. The country manager has been working at the joint venture for 4 years in Kenya since 2017, the establishment in the Kenyan market. The joint venture is currently selling ready mix concrete.

Internal factors such as product type, market target share and research and development expenditures; external factors such as demand certainty of target market, political and economic stability, level of economic development and all the production factors were the most important factors responded by the country manager of the company B on their decision to form a joint venture with a local company in Kenya.

The owner of the company and the country manager worked also together in Djibouti and some North African countries in the construction sector. In 2017, at the beginning, they came to Kenya to construct a bridge project in Mombasa however, the project was canceled. Therefore, the company changed its plan and decided to form a joint venture with their African contacts they met during the times when they tried to make the construction project. They did not have much information about the market, so they thought that a reliable partner could help them to sell the products. “Besides, because of demand uncertainty, it was a good idea to have a local partner” as the country manager said.

“Kenya is also reliable in terms of economic and political stability, so the company was more confident to make short- and long-term plans” as the country manager said. He also added that “the company’s short-term goal is to expand quickly across the country in 2021 and to build the third production plant in Nairobi. Moreover, another aim is to enter neighboring countries such as Rwanda and Uganda in 2022. Whereas the company started to work in Kenya because it was safer among many other African countries when taking politics and economics circumstances into consideration”. So that Hypothesis 1 is supported in favor of the two external factors such as economic and political stability, as the company chose hierarchical entry mode in the Kenyan market.

“Company B uses a modern technique in manufacturing concrete rather than the traditional way. To be more specific, the company invested in research and development to acquire a new technique instead of using a standard technique. The standard one is common in Africa because it is easier and its production plant is requiring less investment” the country manager stated. The product is called ready-mix concrete. Therefore, it is higher quality and highly differentiated product compared to the traditional type that is commonly produced by its competitors in the Kenyan market. Ready-mix concrete(RMC) is also adaptable to different climate conditions. For example, you can use ingredients to freeze the concrete quickly in the cold weather, or it is possible to add waterproof to prevent rain for the use at roof floors. There is one product but not all types are standard, different types are manufactured according to the customer demands. Different models are available for different customers. These are some of the cement types: C15 – C20 – C25-C30 screed mortar, RMC with waterproof, RMC with fibre. It is also technology-intensive compared to traditional type. In traditional techniques, concrete is being mixed with hands during the production process however, a complex machinery system is used in the modern technique.

They had a chance to enter the market with greenfield investment with 100% ownership and they had the sufficient resources that enabled them to build the same factory. There was no governmental restriction for the company to build it alone, too. Instead, the company preferred to form a joint venture with a local partner because it was more advantageous. The partner firm is producing cement that is a raw material for concrete and it already has a sales network around the country which easily provides a customer portfolio. Therefore, production factors were quite important in the company's entry choice. “Transportation and communication infrastructure are also developed in the region compared to some other African countries, and it helped to work with the partner firm in manufacturing and distributing”, the country manager said. “Joint venture was the most appropriate to make local production to achieve market share target as well”, the country manager stated.

The company also believes that making business is risky in all countries in the world. For example, the owner of the company lost his construction business in Libya because it was taken over by anti-government rebel forces. “The company's aim was not to share the risk actually” as the country manager highlighted. The owner and country managers have international experience in other countries, but they did not have any experience in Kenya. Only spending a short time on the failed construction project that did not even start can be considered as the experience. But they had the opportunity to get information about the environment and to know more about their partners during the process. However, the company particularly stated that other international experiences did not influence its entry mode decision. The company is not small size as it has resources to build a plant in the amount of 5 million USD, so that hypothesis 3a is supported. The company did not have any experience in Kenya when they decided to choose joint venture as entry mode. It decided to form joint venture rather than making a greenfield investment which could have given the company larger resource commitment and taking higher risk on its own, therefore hypothesis 3[b] is supported.

Kenya is a country with a high growth rate as mentioned. Also, according to OECD (2021), if there are only a few dominant companies in the market, this is called oligopoly market. Some oligopoly markets could be competitive whereas others are importantly less so, or may seem like that way. The ready mix concrete industry is also oligopoly market in Kenya.   There was not a high competition with less volatility in this industry because the four companies had shared most of the market before the company B came. Therefore, this market seems like oligopolistic. In addition, after spending 3 years in the Kenyan market, the firm became the second-largest company in the market in terms of monthly sales. Its market share is now 30%, while the leading firm’s share is around 40%. The other three companies are sharing the remaining 30%. If there are fewer companies in the market, it seems like less competition. Four players seem like low competition and hence support H2b rather than conflict. As it can be seen in this case, hypothesis 2[a] and 2b for company B are supported in favor of a high economic growth rate and less competition in the market because the company chose hierarchical entry mode in the Kenyan market where there has been an average increase of 5.5 percent.

5.3 Case Study: Company C

Export story of company C in Kenya started in 2016 with a tender for tractor purchase of Kenyan government to be donated to the Ministry of Agriculture of the Republic of Kenya. The company decided to enter the tender and won it. Therefore, tractors and truck-mounted equipment were manufactured in Turkey and they were delivered to Kenya in 2016. Ministry of Agriculture got the tractors to use in agriculture projects in six cities, namely Garissa, Wajir, Madera, Isiolo, Tana River and Lamu. Later, the company continued to export to end-customers in Kenya as well. The company did not have any experience in the Kenyan market before its sale in 2016.

With the successful completion of this project, the products have also diversified. The need for service and spare parts arose. Firms made requests to Company C in line with their needs. Therefore, foreign trade manager and his team in the company had meetings with important business people in the capital of Kenya. Following the meetings, the company decided to give a dealership, which is called exclusive dealership agreement to one local company. The country manager stated that "we have found the best dealer in the interests of our company". Export process has continued in that way. Spare parts, tractor and agricultural equipment are products that are exported Kenya.

Country manager of the company stated that the company did not decide to invest in Kenya, yet. As he explained, the nature of the product is very important in this decision as well as demand uncertainty. It is not an easy activity to establish a sales network in a country with low numbers and become able to carry out this. Because the tractor business is not a simple buy-sell trading activity, a tractor is not like a commodity. Even if you sell a tractor, you have to sell spare parts there, too. The tractors may also need after-sale service, especially in the markets such as Africa because you provide high quality products and its spare parts should be high-quality as well.

Internal factors such as type of the product, international experience, previous experience in Kenya, experience in using the same entry mode in the past; external factors such as demand uncertainty, volatility of competition and intensity of competition were the most important factors stated by the country manager of the company C on their decision to choose export in Kenya as well as their decision to continue on the same way.

This case does not support Hypothesis 1 because the company has enough resources to invest in Kenya, whereas it prefers to export although the country is economically and politically stable for a long time. It is a big company with a lot of resources but did not want to take a risk by investing in Kenyan market. However, apart from running a manufacturing facility, it has not even considered to establish a storehouse, sales store or customers service center etc. Instead, the company decided to continue its operations in Kenya by exporting to a local dealer to sell its goods in the market.

This case does not support hypothesis 2[a] for company C as well because the company's entry mode to the market is exporting although there has been an average increase of 5.5 percent in the GDP of Kenyan economy. The firm is expected to choose hierarchical entry mode when there is a high growth according to the hypothesis.

The company has more than 500 employees and is financially capable of making an overseas investment, but it did not prefer hierarchical entry mode in Kenya. Therefore, hypothesis 3a is not supported in our case. The company did not have the experience in Kenya until the tender that was won in 2016. Therefore, hypothesis 3b is supported in our case because the company did not choose a hierarchical mode. It may change its decision in the future after it gains more experience in Kenyan market, for example, it can establish a subsidiary.

There are three different price segments in this industry in Kenya, as the country managed stated. Companies mostly from China, India, Pakistan, Iran and Gulf region are selling trucks for around 13.000 – 14.000 USD, while the sales price of company C’s trucks is set to 18.000 – 20.000 USD. Third price band for the trucks is between 25.000 – 30.000 USD, mostly sold by companies from United States, Italy and the United Kingdom. In total, there are around 20 companies in the competition in Kenyan market. Pricing of other goods such as spare parts and agricultural equipment are also in similar proportions.

The company explains the product segments in the sector by saying that its products are high quality, but medium price while European brands are higher price with the similar quality compared to the company’s products. However, other brands from East Asia and Gulf region are selling particularly low quality goods and their price is also low. Because of this structure in the competition, the company define that the competition is high. The country manager stated that they cannot decrease the prices as Asian and gulf countries do because there is a big difference in the quality of goods among them.

Hypothesis 2b is supported in our case because the competition is high in the market, therefore the company decides to sell its products in Kenya by export entry mode.

The company’s products have diesel engines with high fuel tank capacity, high cylinder volume and number which makes the company’s trucks more special than some of its competitors. As the company does not have previous experience in the target country and its production plant requires a high amount of investment, it did not consider investing the manufacturing plant abroad or even establishing a subsidiary, or distribution offices, thus, our hypothesis 3b is supported. However, hypothesis 3a is not confirmed because the company has had enormous resources which would enable the company to have a hierarchical entry mode in the Kenyan market.

5.4 Case Study: Company D

She has been working as country manager in Kenya for two and half years. The country manager has been working for sixteen years in the company since 2005, she started working as sales advisor. She has taken part in the operations related to overseas retailing since 2016. Before her posting as country manager to Kenya in 2018, She also has paid several working visits to China, Indonesia, Malaysia, Tajikistan, Kyrgyzstan and Kenya as supervisor to give some supports to its operations of the retailers at these countries. Unlike most of the other Turkish firms in Kenya, as a strategic decision of board of directors of the company, its foreign entry mode decision does not depend on the country, which is the same for all, establishing retailer stores chain with %100 ownership. The company made its first investment in Kenya in 2016 by completing legal and official procedures of the company’s establishment there and then opened the first store in 2017. Before that, the company did not sell any goods in the Kenyan market.

The country manager remarked that it does not have an evaluation method to choose entry mode type because it is the same as a strategic decision when entering any country. But, the company uses an evaluation system to choose which country to enter in the short term, the medium term and the long run. When the entry to the markets in Egypt and Morocco has been successful, the company decided to enter a few markets in Sub-Saharan Africa as well. There are some indicators while choosing which country to invest such as population, development level, GDP, intensity of global competitors in the target market, transportation as well as direct flight with Turkish Airlines. A grading system in which the indicators have some points is used to help the company predicting which country conditions would be suitable as well as more profitable regarding the investment. After grading countries accordingly, Kenya was appropriate location to invest in Sub-Saharan region in the short term. Therefore, these are factors that affect whether to enter the target market or not. The factors are not affecting the decision how to enter the market since there is only a single way of entering the market.

The challenges the company has faced in Kenya: she found the working culture to be different. Also, exporting goods from Turkey to Kenya, customs clearance and legal processes are not easy to handle in Kenya. Today, as the company has spent some time and gained some experience, it is well known by the key players such as the customs officers of this country, the tax team, the brokerage firms, the country knows as well as the customers know us, which makes things easier and efficient.

The company’s target audience profile is customers with middle and high income class in the country. Its stores as well as its products are known as the first class with more affordable prices compared to the other brands that target the same customer segment. The company had 6 stores in 2019 which has increased to 8 in 2020. It has around 30 percent share of all market in men and women in the garment industry while it has only around 10 percent in the shoes sector.

As the country manager claimed that there is almost no competition in the market because there are three competitors in the same sector with different quality and prices than the company D, the two are from South Africa with 10 and 6 stores. Both firms have so expensive sales prices which is more than others including company D. Another one is a Spanish company with only one store, which has also extremely high sales prices compared to the company D. For example, price for one shirt in the company's store is around 150 Turkish Lira while it is around 300 Turkish Lira in these brands. In addition, there is a bazaar called Mutunba which has a huge area and has variety of goods as well as textile and shoes. Its target audience profile is people with middle and low income. However, sales are not registered and there is no official data about daily transactions at the sales center, so it is not much known how much sales volume is realized there. Even second hand products that are brought through social aid by Europe are on sale in the Mutunba.

As we can see here, hypothesis 2a for company A is supported in favor of a high economic growth rate because the firm chose hierarchical entry mode by establishing retail store in the Kenyan market where there has been an average increase of 5.5 percent. The hypothesis 2^b suggests that firms are more likely to choose the export entry modes when there is a high competition and vice versa. Likewise, hypothesis 2^b has also been confirmed, as the competition is low in the sector and the company chose hierarchical entry mode by investing in the market. The interviewee also declares that these are their decision criteria to enter the country. Her statement by itself supports the hypothesis

As the economic and political dynamics are healthy compared to most of the other African countries, the Kenyan market attracted the company to make investment. Therefore, hypothesis 1 has also been confirmed.

Although the company has had long-years overseas experience in different countries, it did not have any experience in Kenya. Nonetheless, as a strategic decision, the country does not prefer any other foreign entry mode, so it decided to choose hierarchical entry mode in Kenya, too. As it has no experience in Kenya in the past, hypothesis 3b is not supported. On the other hand, hypothesis 3a has been confirmed because size of the company is big and it chose hierarchical entry mode in line with what the hypothesis has asserted.

The company is also planning to increase its stores from 8 to 10 as soon as possible by opening new stores in the cities whose population is more than two hundred thousand. Due to the long distances and difficulties between the cities, the company also make online sales from social media. The customers can use online payment method from their personal mobile phones.

5.5 Case Study: Company E

Country manager of Company E is responsible for its three stores in Kenya and other sales activities occurred in Uganda and Zambia. He has been working with the company since 2019, the same year when the first store opened in Kenya, which is its first activity there. “One of the most important reasons to choose Kenya for investment is that another Turkish company selling shoes and other goods started to open its stores in Kenya a few years ago. When that firm became successful there, the company E followed it and opened its first store in Kenya, too” the country manager said. “Kenya is also a strategic decision because if the company E becomes successful there, it will think about making investment around the countries located in the east and south region of Africa. It aims to build warehouses in Kenya and makes it hub country for its further sale activities in the East Africa because it looks more stable economically and politically compared to other countries in the East” he also added.

“Our operations in Kenya are very difficult to be carried. The logistics is the biggest problem because transportation is difficult and highly costly. It takes around two months to deliver the goods from Turkey to Kenya by sea. You also lose around two weeks for inspection at the customs. Time management is so important because the goods are sold by season and fast fashion. You have only a short period of time to sell the shoes. When you miss the season, you cannot sell shoes easily. For example, the wet season starts in March, winter season starts around June and July. This is so different compared to Turkey, therefore operations are different and difficult to be carried out by Turkish companies as they did not have experience like this. Country experience is so important for this reason. Because of this complexity, the companies sometimes become inevitable to send old season shoes from Turkey to the countries that they do not sell large amount of goods to. In addition, if the company could open new stores in other countries, circulation of sales might increase and we will be able to build storehouses and we will not have this issue anymore. Shipment by air takes around 10 days, but it is very expensive, so it is not used if not so necessary." the country manager explained.

There are more than 10 companies that have shoes sales stores in Kenya. "The competition is high" the country manager said. Some companies have more than 100 stores in Kenya, whereas others have only two to three stores. The company's target audience profile is customers with low and middle income class in the country. The company is planning to double its number of stores in Kenya by the end of 2021. It also sells its product online just like its competitors.

As Kenya looks more stable than others in East Africa and it is growing economy for a long time, the Kenyan market attracted the company E to make investment. Therefore, hypothesis 1 and hypothesis 2a have been confirmed. The hypothesis 2b suggests that firms are more likely to choose entry modes that require low resource commitments when there is high competition and vice versa. However, although the competition is high in the market, the company took risk and made investment even before it has not made any export activities in the past years. Therefore, hypothesis 2b is not fully supported. On the other hand, the company has not established production facilities in Kenya yet, it may achieve that in the future when it believes it has enough customer and large amount of sales around the region as it is understood. Moreover, the company has had zero experience in Kenya by the time it opened its first store in 2019 December. Therefore, hypothesis 3b is not supported. Lastly, hypothesis 3a has been confirmed because size of the company is big and it chose to invest and plans to invest more in Kenya, which requires high resource commitment.

Overview of the result of the hypotheses is also seen in table 11.

Table 11. Result of the Hypotheses

HYPOTHESES	A	B	C	D	E
$H_{1:}$ about economic and political stability	+	+	-	+	+
$H_{2a:}$ about economic growth rates	+	+	-	+	+
$H_{2b:}$ about intensity of competition	-	+	+	+	-
H_{3a}: about company size	+	+	-	+	+
$H_{3b:}$ about country experience	+	+	+	-	-

Confirmed : +
Unconfirmed: -

CHAPTER 6

CONCLUSION

The process of choosing the most proper entry mode is a vitally important decision. A range of different factors can affect the decision. Economic and political stability, economic growth rates of the country, intensity of competition, company size and country experience among many other internal and external factors have been tested with the cases based on real life experiences of five Turkish companies in the target country, Kenya. This work presents the outcome of research in Turkish companies' entry mode decision to the Kenyan market and factors that affect their choices.

The research describes the internationalization and analyzes the factors effecting the entry mode decision of five different companies from Turkey to Kenya. Several hypotheses were proposed and tested in order to explain five different factors and their relation to the entry type decisions.

Providing real examples from Turkish companies that give readers an opportunity to understand how Turkish companies make business in Kenya and analyzing their entry mode decision process are the most important contributions of this study.

According to the findings, economic and political stability as well as high economic growth rates in recent years of the target market more likely lead the Turkish companies to make direct investment in Kenya instead of choosing an export entry mode. Although there is one exception among the firms, the firm size is also a highly influential factor in choosing an entry mode that requires high resource commitment. The level of the competition and previous experience in the target market were not observed as highly influential factors for all firms, as hypothesized in the study.

One of the targets of this study is to be a handbook for investors and exporters based in Turkey, who would plan to invest in Kenya and neighbor or similar markets in Africa. As it gives real examples of firms who are successfully operating in Africa, newcomers in Africa can benefit from this study while choosing their entry mode. In addition, Kenya is not a well-studied market in the academic literature, and it is also not well known in Turkey. However, it is one of the most important markets with its size and opportunities among all 54 African countries. Researching entry mode decisions of Turkish companies in Africa, especially by conducting case study of various Turkish companies, is also not common in the available researches. Therefore, the study is also expected to contribute to the literature.

APPENDIX A

INTERVIEW QUESTIONS

Q: How did you decide to enter the market in Kenya? When did you enter the Kenyan market?

Q: Which entry mode (foreign direct investment, joint venture, acquisition, export, licensing, subsidiary etc.) did your company use while entering the target country's market and why? Does this entry mode differ from the entry mode in other African countries you are currently operating (if any)?

Q: Are there any production facilities in a foreign country? If yes, please specify the countries.

Q: Are there any production facilities in a Kenya?

Q: How and Why did you decided to build production plant in Kenya? OR
Why did you decide not to establish a production plant in Kenya? Are you planning to establish production facilities in Kenya or neighbour countries in the future?

Q: How do internal factors influence your firm's choice of foreign market entry mode to target market?

Q: How do external factors influence your firm's choice of foreign market entry mode to target market?

Q: Does the company have special strategies for abroad activities? Are there any specific strategies for each market? What was the strategy before the entering Kenya market? Have your strategy for Kenya changed after a while following entrance?

Q: "What steps you followed while entering Kenya?" and "Which challenges did your company face when entering to the market?"

Q: What goals did the company have with their entry to Kenya? Are there any long term or short term goals for the company in Kenya, also for African continent?

Q: How many products does the company have for the market in Kenya?

Q: Is the competition high in Kenyan market? How many different companies are there operating in the same sector in Kenyan market?

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