

SAVONIA UNIVERSITY OF APPLIED SCIENCES
UNIT OF BUSINESS AND ADMINISTRATION, KUOPIO

**INTRODUCING TANZANIA AS A POTENTIAL MARKET FOR
FINNISH COMPANIES**

Mika Karjalainen
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Author(s)
Mika Karjalainen

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Abstract

It is becoming clear that Africa offers huge market and investment possibilities with its one billion people. The purpose of the study was to introduce Tanzania as a future market for Finnish companies. Analyzing the operational environment and the investment and market potential in the area were the key objectives of this study. Theory about internationalization and operational environment analysis were used to describe the process of expanding abroad from the point of view of Finnish SMEs. The study was conducted in co-operation with Fincorona; a consulting firm that helps Finnish companies to expand into the African market.

The study was carried out by collecting both secondary and primary data. To start with, Tanzania was analyzed as a country and by four chosen industry sectors that were mining, renewable energy, telecom and construction. In addition to literature and other publications, information was collected by interviewing respondents of seven Finnish organizations operating in Tanzania and five respondents of Tanzanian companies. All participants in both researches were asked to identify the most significant risks in Tanzania's operational environment, market and investment opportunities and the obstacles that may prevent Finnish companies from expanding to Tanzania.

The research indicated significant investment and market opportunities in various sectors including the booming telecom sector, growing forestry, mining IT, construction and energy sectors. Secondly, the research findings indicated that the most significant risks related to Tanzania's operational environment are the lack of knowledge about legislation and bureaucracy, liability of foreignness, poor infrastructure and cultural differences. Many significant risks can be prevented by acquiring an adequate level of information, establishing reliable networks with local and international companies and making a long-term business implementation plan with a comprehensive risk analysis.

Despite the challenges, Finnish Department of Trade should encourage Finnish companies into new markets such as Tanzania and collaborate with the local Investment Centers to motivate and facilitate the entry of new Finnish companies into the country. Information about Tanzania can be found from various online sources, the Finnish Embassy, the Finnish companies already operating in Tanzania and from consulting firms such as Fincorona and Finpro.

Keywords

Tanzania, internationalization, industry analysis, operational environment analysis

Note

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ABBREVIATIONS

BBC	British Broadcasting Corporation
CCM	Chama Cha Mapinduzi (Revolution Party)
CIA	Central Intelligence Agency
EIA	Environmental Impact Assessment
EK	Elinkeinoelämän Keskusliitto
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISO	International Organization for Standardization
IT	Information Technology
NCIO	Counterfeit Chinese Nokia
NGO	Non-Governmental Organization
PEST	Political, Economical, Sociocultural and Technological environment analysis
PESTEL	Political, Economical, Sociocultural, Technological, Ecological and Legal environment analysis
PROBEC	Program for Basic Energy Conservation in Southern Africa
SME	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities and Risks
TANU	Tanganyika African National Union
TELECOM	Telecommunications
TCRA	Tanzania Communications Regulatory Authority
TISPA	Tanzania Internet Service Providers Association
TRA	Tanzania Revenue Authority
UNICEF	United Nations International Children's Emergency Fund
VAT	Value Added Tax
WTO	World Trade Organization

1 INTRODUCTION

Finland as a country is much dependent on exports and the main trading partners are found inside the European Union. The EU countries accounted for 55 per cent of total exports in 2010, while Russia, USA and China made 21.1 per cent (EK 2011). In 2008 Sub-Saharan Africa accounted for 1.3 per cent from the total exports as imports accounted for less than 0.5 per cent (Tullihallitus 2009 referred in Ulkoasiainministeriö 2009, 4). Considering the financial crisis inside the Euro zone, it would make sense to invest in the growing African markets, but the Government has not done much to increase Finland-Africa bilateral trade. Countries such as Tanzania present various market and investment opportunities for Finnish companies. Actually, Tanzania is not a totally new country for Finland due to a long history in development co-operation projects. Tanzania is Finland's third largest trading partner in Africa (Tullihallitus 2009 referred in Ulkoasiainministeriö 2009, 4). Further, Finland is one of the eight long-term partner countries of Tanzania, yet only a few Finnish companies have invested significant amounts in the Tanzanian industries. Some industry sectors in Tanzania have experienced rapid growth and there is a need for machines, tools and high-tech products which Finland has been pioneering for many decades. Tanzania was chosen as a target country for this thesis due to the author's previous experiences in the country as well as the stability compared to many other African countries. (Embassy of Finland in Dar es Salam 2010a.)

1.1 Purpose of the study

It is becoming clear that Sub-Saharan Africa, including Tanzania, has a huge purchasing power. Countries like China, UK and Germany have found these markets and are making windfall profits. Meanwhile, many Finnish companies operating in Africa have experienced deinternationalization. In fact, Finnish companies have already lost their competitive advantage in many industry sectors but in a market as large as Africa there are plenty of free markets remaining- but not for long! The purpose of the study is to analyze the current situation of Tanzania as a representative of Eastern African markets for Finnish companies and to understand the risks and opportunities international companies might face in Tanzania. The executive organization of the thesis is Fincorona, which is an international marketing and consulting firm from Kuopio. The company was established in 2009 with an aim to

provide information that empowers Finnish companies to make sound strategic business decisions based on comprehensive market research, market analysis and implementation of business plans in Africa (Fincorona 2011). Having completed my basic internship with Fincorona, I had contacts with various companies in Finland and Eastern Africa. Furthermore, it was decided with the managing director of Fincorona to make industry analyses of the four chosen industry sectors and present opportunities for Finnish companies. In the end, it was decided to choose the sectors that had showed significant growth and that were the ones that created opportunities especially for Finnish companies. As a result, mining, renewable energy, telecom and construction were chosen. Hopefully, this thesis will give Fincorona new tools to help Finnish companies wanting to expand to Tanzania and to identify possible obstacles that may prevent companies from expanding to countries such as Tanzania. The thesis is by all means meant for those Finnish or other international companies wanting to expand to Tanzania or any similar country and for those that are already operating in Tanzania.

1.2 Research questions and theoretical framework

The topic of survey consists of four parts, theory about internationalization and operational environment analysis, Tanzania country and industry analysis by the four chosen sectors and two qualitative researches. The researches consisted of two interviews; one that depicts the opinions of Tanzanian companies towards Finnish companies and another one that tells some of the Finnish companies' experiences in Tanzania. The four parts provide answers to the following research questions:

- 1) Which kind of market and investment opportunities Tanzania's mining, renewable energy, telecom and construction sectors present for Finnish companies?
- 2) What are the risks and opportunities involved in Tanzania's operational environment?

There is not so much academic information available concerning the operational environment and the market and investment potential in Tanzania. The frame of reference is based on various secondary data sources, including books, articles and online sources. Internet turned out to be the most valuable source of information. However, using internet sources raises the question of credibility. It is also advisable

to have information backed up by another source. In case there are no sources to choose from, it is better to take the ones that exist rather than have no source. In addition to online sources, I obtained up-to-date information by doing my in depth internship in Tanzania. Even though, my internship with Fida International was not related with my thesis, my physical presence in Tanzania enabled me to gather material and ideas for this thesis. During the time I spend in Tanzania, I met with people working in mining, renewable energy, telecom and construction sectors and discussed the market and investment opportunities for Finnish companies. The information was added to Fincorona's internal report about Tanzania, which is only available for Fincorona's customers.

Due to the lack of academic theory about the investment and market potential in Tanzania I chose to approach the topic in the form of internationalization and target market and operational environment analysis. Theory about internationalization and operational environment analysis was gathered from textbooks, articles and online sources. The main sources were books about international business and internationalization, including books from famous authors such as Janet Morrison, Peter Buckley, Thomas Wheelen, David Hunger and Irma Vahvaselkä. Furthermore, information was obtained from various online sources such as BBC, CIA, Embassy of Finland, Mbendi Information Services, Tanzania Revenue authority etc.

1.3 Structure of the study

The thesis is a combination of theory, country and industry analysis and two qualitative researches. The theory consists of internationalization, target market analysis and operational environment analysis. Secondly, Tanzania will be introduced as a country and by four chosen industry sectors (mining, renewable energy, telecom and construction). Furthermore, two qualitative researches were conducted in the form of semi-structured interviews. The first research depicts the opinions of Tanzanian companies about Finnish companies. Namely, five respondents of five local companies were chosen and interviewed in Tanzania. The respondents listed market and investment opportunities and risks that international companies might face in Tanzania. The second part of the research deals with the experiences of Finnish companies and non-governmental organizations in Tanzania. Eight respondents of

seven organizations were interviewed to find out their experiences and identify risks and opportunities in Tanzania.

The thesis is divided into five chapters. The next chapter introduces the process of internationalization, describes the process of scanning a target market and explores the basics of doing a PESTEL environment analysis and explores Tanzania's PESTEL environment.

Chapter three is divided into two parts; the first part presents Tanzania as a country exploring the country's history, geography, demographics, government, economy and trade with EU and Finland as the second part analyzes Tanzania's mining, renewable energy, telecom and construction sectors and presents market and investment opportunities for Finnish companies.

The fourth chapter explores the research methodology and presents the findings of the research. The chapter introduces the main concepts used in the research including qualitative research method, semi-structured interview, data analysis and validity and reliability. The chapter additionally introduces the respondents of the research and presents the main findings gathered from both researches.

The fifth chapter concludes the previous chapters as well as the whole thesis process. The chapter appraises the validity and reliability of the study, makes suggestions on future studies and evaluates the usefulness of the study for Finnish companies.

2 UNDERSTANDING THE PROCESS OF INTERNATIONALIZATION AND IDENTIFYING RISKS AND OPPORTUNITIES

Chapter two introduces theory concerning the process of internationalization, describes the process of scanning a target market and explores the basics of doing a PESTEL analysis, gives a basic PESTEL analysis for Tanzania and finally presents some relevant issues that companies need to consider before expanding to the target country. PESTEL environment analysis is a universally known technique for operational environment analysis that explores a country's political, economical, sociocultural, technological, ecological and legal environment.

2.1 Internationalizing process

Finland's economy is dependent on internationalization in terms of balancing the exports and imports. To be competitive SME's need to start internationalizing earlier than ever, knowing that the Finnish markets are limited in many industry sectors. The growth and internationalization of Finnish SME's is vital to Finland's economic growth, not just in creating employment but being competitive as a nation. However, internationalization can be a major risk factor as the decisions are made by the executive management team or the owner. Therefore, the essence of market research, operational environment analysis, business implementation plans and finding reliable networks cannot be exaggerated. (Vahvaselkä 2009, 15-16.)

Internationalization is the basis of economic growth but what does it exactly mean? Peter Buckley defines it as an increasing involvement in international operations. Internationalizing companies need to consider the balance of countertrade, meaning that inward and outward operations are well structured. In other words, the outward activities cannot be successful unless the inward operations are well organized. The inward-outward interlink is illustrated in the growth of international viability of many companies to the ability to tie in cheap raw materials imports from international suppliers. Therefore, increasing international involvement cannot be restricted to outward operations, given the increasing role in inward operations. (Buckley 1999, 84.) After defining the meaning of the term internationalization the incentives to internationalize should be introduced. According to Czinkota et al (1999, 368), the motives to internationalize can be divided into proactive and reactive motives.

Proactive motives are stimulated due changes in strategy as reactive motives are stimulated when the company responds to the changes in the external environment. The decision to internationalize is often a mixture both proactive and reactive factors. Motives to internationalize are presented below in table 1.

Table 1. Major motivations to internationalize Small and Medium-Sized Firms (Czinkota et al 1999, 368.)

<u>Proactive</u>	<u>Reactive</u>
-Profit advantage	-Competitive pressures
-Unique products	-Overproduction
-Technological advantage	-Declining domestic sales
-Exclusive information	-Excess capacity
-Managerial commitment	-Saturated domestic markets
-Tax benefit	-Proximity to customers and ports
-Economies of scale	

One of the most common proactive incentives is profit advantage, where companies look for new markets for their products. Secondly, companies can have unique products with a technological advantage that is really valuable in international business. Managers might also have exclusive information about certain markets and possibly search for a tax benefit, where the amount taxes are lower compared to home. 'Economies of scale' means producing with a maximum capacity to supply large markets and often involves the search for a cheap labor. Reactive incentives include competitive pressures as a result of tough competition, overproduction, declining of domestic sales, excess capacity, saturated domestic markets and finally proximity to customers and ports. Companies often need new markets for their products if they are overproducing, experiencing excess capacity or decrease in domestic sales. (Czinkota et al 1999, 368.)

It should be stressed that internationalization is a long-term process without inevitability about its continuance. In fact, de-internationalization can occur at any stage. Companies need to make a continuity plan for the internationalization process. If companies are too satisfied with their areas of internationalization, they might lose their competitive advantage. (Buckley 1999, 84.)

This is the case with many Finnish companies who have potential products for huge international markets in Africa, but instead of expanding to these markets they choose to be satisfied with Russian and European markets. Naturally, it is recommended to stabilize operations in these markets but the competition in the emerging markets is increasing rapidly. What do China, UK and Germany have in common? They have passed the threshold and are making windfall profits in the African markets. First of all, China has been turning into Africa for years and according to a research by Financial Times (24.1.2008) the growth of China-Africa trade has increased rapidly from 2001 to 2007. In 2006 China's leaders toured 15 African countries to secure oil and other primary products needed for Chinese industrial growth. In return, China undertakes transport and infrastructure projects in many African countries, offers governmental loans, not forgetting about exporting manufactured products. In 2007 approximately 800 Chinese state companies were active in Africa, winning 50 per cent of new public infrastructure tenders. Prices for most Chinese products and infrastructure projects are less compared to companies from Western countries and they practice a non-interference policy, where the foreign investor does not involve in issues such as poverty reduction, democracy, human rights and fighting corruption. The low price-level and the non-interference policy have been warmly welcomed by most African leaders and countries. (Morrison 2009, 204.)

Secondly, UK has also shown significant interest towards Africa. According to Lord Davies of Abersoch, the UK Minister of Trade, Investment and Small Businesses, UK-Africa trade is accelerating rapidly and is currently worth billions of pounds. Namely, a growing number of British companies are realizing that there are great opportunities in partnering and developing business in Africa. In 2009 UK-Africa bilateral trade in goods exceeded £27 billion plus the booming service sector and the returns of long-term investments. UK is additionally helping African countries and their producers and traders becoming more competitive. Supporting a series of regional programs will further support regional integration within Africa, promoting further growth. (Times Publications 2010.)

Lastly, Germany has also been targeting Africa in its foreign policy. According to the World Socialist Website, German foreign policy has shown considerable interest towards Africa for some time. The continent possesses huge raw materials reserves, internal markets with great growth potential and cheap production costs. In 2003

German trade with Africa grew to a total of 23 billion Euros. Only in South Africa, 450 German companies employ over 70,000- especially in the chemical, auto, electrical and engineering industries. Kenya has also been considered as a potential market for German goods and as a base for German industry. Producing in Africa is a good choice when a company is planning to supply the local market. However, when planning to re-import goods to the home country Africa cannot compete with China in the labor costs and logistics management. Africa has a huge market potential and companies who consider themselves international cannot afford to undermine a market of one billion people. For example, Siemens has also been actively intervening to expand its interests in South Africa. It has been committed in building a dam in the Democratic Republic of Congo in co-operation with a South African company, which has then been exporting the electricity gained back to South Africa. (World Socialist Website 2004.)

Meanwhile, Finnish companies are experiencing de-internationalization and leaving the emerging markets for the bigger players like Germany and China. There are some Finnish companies that have found markets in Africa but perceptually it is a small number of Finnish SMEs that are operating in Africa. Another side of de-internationalization is the lack of follow up and assuming that the markets and the purchasing behavior remain stable. In Tanzania, companies such as Nokia and Valmet have gone through a process of de-internationalization and have lost markets to many Asian alternatives. For example, many Nokia's mobile phones have been replaced by cheap Chinese counterfeit products. An average consumer in a country as poor as Tanzania wants to be fashionable and do not want to invest too much on an original Nokia phone, instead purchase many 'Ncio' s'(Counterfeit Chinese Nokia) with good functions to keep up with the fashion. The price of an original Nokia phone is significantly more expensive than a counterfeit one. As this trend continues, Nokia has not done anything to win back these average customers who want a fancy phone with an affordable price.

2.2 Country and environmental scanning

To compare countries, scanning techniques are used based on broad variables that indicate opportunities and risks. Without scanning a company can overlook opportunities and risks and examine too many or too few possibilities. Some countries

might not be included due to false opinions about them. Further, countries and continents are often lumped together e.g. negative experiences in Somalia do not mean that all the other countries in the same area are like that-on the contrary. In fact, there are significant differences in countries even in the same geographical area. Examining too many countries is too time-consuming to make a detailed analysis for each country. Scanning allows managers to examine most countries broadly so that they could focus on the most promising countries. In the scanning phase secondary information is used to compare countries. Once managers determine the most promising countries, they need to compare the feasibility and desirability of each. At this point it is advisable to collect more specific information usually by conducting a market research. Company representatives usually travel to the target country to collect primary information and establish partnerships with customers and distributors. Country scanning also gives information about factors such as labor costs, unemployment rate and infrastructure. While making a final decision companies should conduct a detailed feasibility for new locations, estimate expected outcome for reinvestments and make location and allocation decisions based on company's financial decision-making tools. (Daniels et al 2007, 416-417.)

In addition to country scanning, environmental scanning is used to analyze the external factors in a company's operational environment. According to Wheelen and Hunger (2006,73) environmental scanning includes searching and utilizing data external to the organization with a clear objective on identifying risks and opportunities that might have an impact on the operations or performance of the organization. In other words, environmental scanning is a process that the organization embarks in order to mitigate the element of unknown within its operational environment. There are some risks that can be prevented by firstly being aware of and taking precautions to minimize the impact of the risks. However, some risks are the type that it is very difficult to predict e.g. how the economical situation in a certain country will develop. In addition to scanning the external factors related to the organization, it is essential to analyze the internal factors inside the organizations to determine strengths, weaknesses, opportunities and threats. While evaluating the strategies and goals an organization can make a SWOT analysis to identify external threats and prepare against them. A simple PEST analysis is a good start when analyzing the operational environment and a niche market. (Whleen&Hunger 2006, 115.)

2.3 Analyzing the target market and doing a PESTEL analysis

Root (1994) defined the choosing process of target markets in four steps. They are initial survey, evaluating market potential, evaluating sales potential and identifying the market segments. The initial survey gives basic information about the country and its industries. Secondly, evaluating market potential gives information about the market size and market potential. This stage concentrates on the potential countries with potential markets. The third step is evaluating sales potential. This includes benchmarking, competition analysis, market, and consumer and distribution channel analysis. This stage concentrates in the countries with high sales potential. The last step is identifying market segments in those high potential countries. This stage requires a comprehensive market research using primary sources of information. (Vahvaselkä 2009, 67.)

While proceeding in the target market analysis at some point the sources of information change from secondary to primary sources of information. Comparing possible target markets is made possible by a PEST environment analysis (Political, Economical, Sociocultural and Technological). These are the factors in the macro environment that are not in the company's control and can pose threats to companies. Changes in the PEST environment can also create new opportunities for companies. When legal and ecological issues are taken into consideration the analysis is called a PESTEL analysis. The natural environment is also included in the macro environment. PEST analysis should be done separately for all countries. (Morrison 2002, 23-24.)

Let's take a look at the PESTEL environment analysis in general followed up by a brief Tanzania PESTEL analysis.

Political environment

Political environment can be analyzed by two dimensions, the first one being the level of emphasis on either collectivism or individualism and the second dimension being the political system either being democratic or totalitarian. Finland is considered both as a democratic as well as an individual country where as many African and Asian countries emphasize collectiveness and totalitarianism. (Hill 2004, 46-49.) In addition, political and legal environment are connected in a way that the political leadership is the one that impose new laws that affect the level of taxation and tariffs. Domestic

political and legal environment includes all factors that affect company's international activities. For example the government can offer support for exports but it can also complicate export by taxation and bureaucracy. Political risks can be divided into macro and micro political risks. Macro political risks as a result of wars and changes in government affect all companies operating in the target country. Changes in leadership and a country's political system can even result in expropriation or confiscation, where the government seizes the assets of the company without compensation. (Wall&Rees 2004, 136.) The macro political risks in the target country can be property, operation or financial risks. These risks can be either caused by the local government or by other factors. Risks as a result of government measures are tariffs, laws that favor domestic industries, financial control, market-price control, tax and labor regulations and expropriation. (Vahvaselkä 2009, 68.)

Local governments can also introduce laws that regulate free trade in order to support local industries and increase the foreign exchange rate of the country's currency. The micro political risks in the country's political environment affect only companies in certain industries, areas or ventures. An example of a micro political risk could be regulations and taxations imposed on companies working in a specific sector. (Wall&Rees 2004, 136.)

How to predict and protect against political risks? Three approaches are used by managers to predict political risks: analyzing past patterns, using expert opinion and examining the social and economic conditions that might lead to such a risk. Firstly, companies cannot help but be influenced by past patterns of political risk. History has a tendency to repeat itself and companies should be aware of the history of the target area. However, political situations may change rapidly for better or worse. For example, FDI into USA fell significantly in 2001 due to the terrorist attack in New York. Now, after nine years the FDI into USA has increased again despite the risk of a new terrorist attacks. Secondly, companies may rely on expert opinions regarding the country's political situation. The first step is reading statements made by political leaders to define their philosophies on business in general, foreign input to business, the means of affecting economic changes and their feelings towards the foreign country in question. Modern technology has improved the access to press reports in foreign countries. Namely, online services offer full text reports from newspapers and television from various countries all over the world. The second step is for the

managers to visit the country and listen to a “cross-section” of opinions. Embassies and local and foreign business representatives can be useful sources of information. The third approach in predicting political risk is relying on analysts with experience in a country. These analysts might rate a country on specific political conditions that could lead to problems for a foreign business. One risk could be fractionalization of political parties that could cause disruptive changes in the government. One way to analyze political risks is examining countries social and economic conditions that could lead to the population’s level of aspirations as well as the level of welfare and expectations. Basically, the higher the difference the higher the level of frustration. If there is much frustration, groups may disrupt business by calling general strikes or even destroying property and supply lines. In the worst case frustration might result in violence and the replacement of the political leadership. (Daniels et al 2007, 427-429.)

Political environment in **Tanzania** has been relatively stable compared to its neighbors. Tanzania is a multiparty democracy and has been ruled by the Revolution Party since the independence and the union with Zanzibar. Jakaya Kikwete has been president since his election in 2005 and is now serving his second term after winning the elections in October 2010. Kikwete has maintained good relations with the West and Tanzania is still a favored destination of international aid. However, in the 2010 elections his political legitimacy had declined when he won 61 per cent of the votes compared to 80 per cent in 2005. Kikwete is a veteran in the CCM party, which has been the ruling party controlling Tanzania and Zanzibar since the independence and union of Tanganyika and Zanzibar. Overall, the investment climate in Tanzania has been encouraging as the government encourages FDI and investment of foreign companies into Tanzanian markets. (BBC 2011.)

Lastly there are various taxes to regulate international trade. The taxes include Import Duty, Excise Duty and Value Added Tax (VAT) on imports. (Tanzania Revenue Authority 1996.)

Economic and financial environment

The economic environment that companies face can be divided into global economy and local independent economy. The concept of ‘World Trade’ includes the trade volume of the entire world, trade between nations, trade alliances, rules and regulations for international trade, nations own economic policies and organizations

such as European Union, World Trade Organization and International Monetary Fund that control and support international trade. Analyzing a local economy should focus on analyzing the size of the market area and its qualities. The state of a single economy is defined by the growth rate, level of employment, price level, income level, and availability of economic resources, amount of circulating money and the interest rate. Globalization and economical integration have minimized the differences in the operational environments in various countries. The WTO is in charge of introducing international trade laws and controlling the global markets. Financial environment includes all risks in the foreign transactions. These include financial risks, non-financial risk (political and foreign exchange risk). It is essential to minimize these financial risks as they can affect the whole internationalization process of the company. (Vahvaselkä 2009, 69.)

Identifying the economic system in the target country is a key process in the target market analysis. The most common form of economic system is **market economy**, a leading example of a capitalist economy. A market economy is a system where individuals, rather than the government, make the majority of economic decisions. This permits an open exchange of goods and services between producers and consumers. A market economy depends on as few government restrictions as possible. The less the government intervenes the better the market functions. However, there are not many 'pure' market economies in the world that have no government intervening in one way or another. (Daniels et al 2007, 140.)

The second economic system is called **command economy**. In this economy all dimensions of economic activity are determined by a central government plan. Hence, the government commands all authority to decide what goods and services a country will produce, the quantity of production and the price level. Command economies might be large in size but do not give incentives to make innovations as practically the government owns all means of production: land, farms, factories, stores, hospitals etc. For example, communist countries such as North Korea and Cuba have a command economy. Several prominent countries, namely China, Vietnam Russia and many Eastern European countries have started the complex task of transitioning from a command economy into the market economy system. The transition process e.g. in China have created new market and investment opportunities in the country. (Daniels et al 2007, 140.)

The third system is called a **mixed economy**. This is the most common type of economy as there are rarely “pure” market or command economies. A mixed economic system has elements from both market and central planning economies. For example, the government might own the factors of production but consumers and producers influence the price and quantity. A wide range of countries are classified as mixed economies, including Japan, South Africa, South Korea, Germany, France, Brazil and India. (Daniels et al 2007, 140.)

Managing financial risks

Unpredictable changes in exchange rates, interest rates and commodity prices might have a significant impact on a company’s survival rate. Firstly, currency fluctuations can create strong new competitors and affect the company’s financial planning significantly. Exchange rate risks take place when there is a mismatch of revenues and expenses. One type of exchange rate risk is a translation exposure, which reflects the changes of value of the firm’s foreign assets being converted to home currency. (Smithson 1998, 1-14.)

Secondly, changes in interest rates can add pressure to the company’s costs as their sales might be hurt by interest rates as well as financing loans. Changes in interest rates affect both the receivables and expenses, but most firms focus on the interest expense as it can result in economic exposures. Thirdly, fluctuations in commodity prices can result in substitute products to be more affordable to consumers than the company’s input products. Competition and conflicts can affect the general community price levels, thus affecting companies. (Smithson 1998, 1-14.)

If a company is making a direct investment abroad, exchange rates and access to the invested capital are key considerations. Capital controls and recent exchange rate stability are useful indicators of a country’s monetary environment. Predicting future exchange rate deterioration and exchange controls is a useful way to minimize monetary risk. Further, companies can use the concept of *liquidity preference* to assess capital budgeting decisions and can be used for expansion decisions. Liquidity preference is a theory that investors usually want some of their holdings to be in highly liquid assets, on which they are willing to take a lower return. Sometimes companies want to sell their equity to foreign facility so that funds may be used for

other purposes. The ability to find local buyers varies substantially among countries. (Daniels et al 2007, 427.)

Tanzania uses a mixed economy, a combination of free market economy and a state controlled economy. This is a result of the state-centered socialist policies since 1961 until the 1986 economic reforms. After the reforms in 1986, investment interest in Tanzania has grown rapidly in all sectors. Another important step has been the authorization of foreign banks in 1991, making the banking industry more sustainable and competitive. (Advameg Incorporation 2011.)

Tanzania uses Tanzanian Shilling as a trading currency, but often prices are indicated in US Dollars (CIA 2011). The Tanzanian Shilling has been a relatively stable currency compared to many other world currencies. Furthermore, there are 29 licensed banks in Tanzania, including Standard Chartered Bank, Stanbic Bank, Citibank, Bank of Africa Tanzania, Diamond Trust Bank, Exim Bank, National Bank of Commerce and National Microfinance Bank. (Bank of Tanzania 2011.)

Sociocultural environment

The elements of sociocultural environment that affect companies operations are culture, demographic factors, trends and consumers opinions. Factors to consider in sociocultural environment include the availability of skilled labor, consumer's features, attitudes, and demographic factors, special features in the culture, ethnic factors and the role of materialistic culture in the country. To start with, it is important to analyze the social structure of a country. Some important factors to consider are the availability and cost of skilled labor, age distribution, labor strikes and crime statistics. (Morrison 2002, 154.)

The second consideration is culture and managing it. Culture is shared patterns of behavior that is inherited in a society (Schneider&Barsoux 2003, 21). Culture is beliefs and standards that helps an individual define who they are, how to be, how to feel and how to do things. Culture can be observed from a biological starting point, including language, values, customs attitudes, beliefs, material, social institutions and materialistic and symbolic elements. Language is a common factor separating two cultures from each other. Considering culture becomes vital for an internationalizing company when making marketing decisions and while researching consumers

purchasing and consuming behavior. Culture affects a company's operations in both macro level (elements in the social and cultural environment) and micro level (national pride, national identity and attitude towards foreign products). (Vahvaselkä 2009, 69.)

Basically, differences in sociocultural environment can affect the way partners, subsidiaries and agents interpret the goals and ways of operating. Ability to take and receive feedback is essential in terms of organization development, but might be problematic in those cultures that avoid straight approaches. Language is another issue that might cause problems, thus it is vital to find a common language so that communication would be as efficient as possible. (Morrison 2002, 171.)

According to Geert Hofstede there are five main cultural dimensions that separate cultures from each other. They are power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity and long-term versus short-term orientation. Power distance is the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. Based on this Hofstede divided countries into small and large power distance countries depending on the equality and the relationship between a leader and a subordinate. (Hofstede 2005, 46.)

The avoidance of uncertainty means how members of society cope with uncertainties of everyday life. Once again countries were divided into weak uncertainty of avoidance and strong uncertainty of avoidance. The characteristics for strong uncertainty of avoidance are high stress and anxiety levels in work and family lives. (Hofstede 2005, 165.)

Individualism means that the interest of an individual prevails over the interest of a group as in collectivism the interest of the group prevails over the interest of an individual (Hofstede 2005, 74-75). Many countries that scored high in the power distance scored low in the individual index. This is due to characteristics and patterns in certain cultures. Further, a masculine society is defined to be a performance based and corrective society that emphasizes immigrant assimilation, economy growth, tough religions, and tough conflict solving methods as a feminine society on the contrary is a welfare and permissive society emphasizing immigrant integration,

environment preservation, tender religions and negotiation as a means of conflict solving. (Hofstede 2005, 157.)

Lastly, long-term orientation stands for the fostering virtues towards future rewards through thrift and persistence as short-term orientation means fostering of virtues related to past and present and only satisfying social obligations (Hofstede 2005, 210).

Tanzanian culture is a mixture of Bantu, Arab and Western cultures. The main languages spoken in the country are Swahili and English, but there are more than a hundred tribal languages. In Tanzania Swahili is the most dominant language, even though English is spoken by the youth as well as in the offices and agencies. While doing business in Tanzania, it helps to know at least some Swahili or have an interpreter. The best way is to have a reliable local partner that would take care of the legislations and contacts with other related parties. (Maps of the World 2009.)

Tanzania as a country is not included in Hofstede's cultural dimensions ranking list, but it is still possible to analyze Tanzania's relationship with the cultural dimensions by analyzing the scores for East Africa combined with my own experiences in the country. First of all, Tanzania is a country of large power distance. The hierarchies and inequalities are present in most organizations in the country. A good example is the relationship of a student and a teacher that is rather official compared with many western countries. East Africa ranked 34-36/74 (Hofstede 2005, 43) together with Peru and Thailand in Hofstede's Power Distance Index.

Secondly, Tanzania qualifies in a weak certainty of avoidance rather than a strong certainty of avoidance. Namely, East Africa ranked 52/74 (Hofstede 2005, 169) in the Uncertainty Avoidance index. Tanzanians do not have high anxiety or stress levels compared to many Western countries.

Thirdly, Tanzania belongs to a collective culture that has been transitioning to individualism. East Africa ranked 49-59/74 (Hofstede 2005, 79) in Individualism Index together with Portugal and Slovenia. Furthermore, Tanzania can be said to have both masculine and feminine features. According to the Masculinity Index (Hofstede 2005, 121), East Africa ranked 54/74 meaning that the countries in East Africa, including Tanzania are qualified as countries with higher feminine features.

Lastly, Tanzania has adapted features from both long and short-term orientation but qualifies as a country with a stronger short-term orientation. The Long-Term Orientation Index did not include East Africa, thus this ranking is based mostly on my own opinion and comparison with other similar countries. The qualification is based on the observation of the characteristics of short-term orientation such as efforts to produce quick results, social pressure towards spending, respect for traditions and concern for social status. (Hofstede 2005, 212.)

Technological environment

Technology has become the biggest driving force in the business and economic environments. Namely, technological innovation and the capacity to bring new innovations to world markets determine the market positioning in international markets. Technology transfers have been a crucial process in industrial growth and global integration. This is a process where technology is transferred from one country to another, creating industrial growth in both countries. (Morrison 2002, 301.)

Technological environment consist of the technology in the product, technology used in production and the technology owned by the company. All of these affect the competitiveness of the firm. Changes in the technological environment affect both the buyers and sellers. Namely, the purchasers want better products and the company can develop their means of production as well as operation. (Vahvaselkä 2009, 69.) Technological change can involve new processes of production, resulting in increased production volume and capacity. For example, the use of robotics in car assembling has rapidly increased not just the total production volumes, but the output for an assembly line worker. (Wall&Rees 2004, 164.)

Tanzania's technological environment is undergoing a rapid change due to the government development contributions and the rise in GDP. Technological innovations have a significant role in Tanzania's competitive environment and in the telecommunication and internet sectors there are an increasing number of network providers. The construction of the optic fiber cable is hoped to make internet faster and cheaper (Reuters Africa 2010).Furthermore, people have better computer skills than ever due to an increasing IT education and more and more people being able to afford a computer and internet connection.

Ecological environment

It is generally acknowledged that environmental and ecological damage is partly caused by industrial processes. As a result, companies' operations are not just evaluated by their result, but also by their social and ethical contributions. Cleaner production technologies have been developed to minimize companies' impact on climate change and health hazards. In addition, ethical ways of doing business have been introduced to avoid the exploitation of people and natural resources. International regulations have been developed to protect the environmental and ethical aspects of doing business. For instance, the International Organization for Standardization (ISO) has developed environmental management standards, which companies can use to create a competitive advantage. (Tulinen 2007, 16.)

Companies need to be aware of various regulations and taxations involved in the environmental and ethical issues. Many governments have introduced high-taxation on products such as fuels, alcohol and tobacco. In addition, there are various national and international agreements that limit emissions and waste products as a result of production. One of the best known international agreements is the Kyoto agreement that limits the emissions for each country inside the agreement. (Morrison 2002, 360.)

Furthermore, companies need to be aware that the consumers are often environmentally and ethically concerned. According to UNICEF, millions of children are engaged in hazardous situations or conditions, such as working in mines, working with chemicals and pesticides in agriculture or working with dangerous machinery (UNICEF 2011). The use of child labor is not seen ethically appropriate as it can be harmful to the child and should therefore be eliminated. In addition, consumers often demand products and production methods that support sustainable development. Recyclability of the products is one way of measuring the environment-friendliness of the company. (Morrison 2002, 355-357.)

Tanzania does not have a comprehensive environmental law system with mandatory requirements for environmental impact assessment (EIA). Before the Rio Conference in 1992 the environmental matters were not seen relevant and did not play a big role in Tanzania. The Rio Conference created awareness about environmental issues in Tanzania, but did not bring any significant change into legislation and ways of production and doing business. Businesses and corporations saw strict environmental

laws as neo-liberal, resulting in increased production costs, inefficiency, decreasing the competitiveness and the FDI in Tanzania. This has more or less led to the desire to create an ideal environment to attract investors. This policy explains the omission of EIA requirements in Tanzania's investment law and the implementation of EIA processes which regulate investments in the country. There surely are laws and regulations on environmental matters but the implementation is poor. (Lawyers Environmental Action Team 2011.)

Legal environment

Every country has its own legal system and trade regulations. European Union, United Nations and the World Trade Organization have tried to create a homogenous foundation for international trade. Some progress has been made but in areas such as Africa and Asia the integration process has been more difficult than first thought. Therefore, it is vital to understand the legal system of a new target market area. It is advisable to find local partners that know the laws and business customs in the target country. The most common legal systems are customary law, civil law, common law, Muslim law and mixed law. The *customary law system* follows the wisdom of daily experience. Few countries in the world today operate under a legal system that is wholly customary. Secondly, a *civil law system* is based on a systematic codification of laws. There is a collection of law that applies to all citizens in the country. More than 70 countries, including Finland, Germany and Japan use the civil law system. Furthermore, *common law system* is based on tradition, precedent, custom and usage and interpretation by the courts (Daniels et al 2007, 102). Countries engaging in this legal system use statutory codes and legislation but only after looking to rules of the court, prior court decisions and principles of equity. Countries such as Canada, USA, England and Australia use a common law system. In addition, a *mixed law system* combines elements of the other systems. The majority of countries with a mixed legal system are located in Africa and Asia. Lastly, a *Muslim law system* is mainly used in Middle East and in the Asian and African Muslim countries. 'Sharia law' is mostly used in Muslim countries and it's based on the Koran. (Daniels et al 2007, 102.)

Familiarizing with the legislative issues related to the internationalizing and operational processes is required to make a successful entry. Entering a foreign market requires much research, negotiation and bureaucracy. Sometimes governmental actions may prevent companies bringing expatriate personnel, clearing needed imports

through customs and obtaining licenses to produce and sell goods. Companies may need to spend much time to satisfy government agencies on such matters as taxes, labor conditions and environmental compliance. It is essential to note that countries differ much in terms of transparency and corruption. Corruption may include requirements of payments to win a contract or receive services from the government. In countries with low legal transparency and high corruption, government employees might seek their own or their countries interest and so might delay or stop foreign business from operating. (Daniels et al 2007, 422-423.)

In addition, identifying legal risks is vital to make a successful market entry. Figure 1 presents the legal risks involved in overseas locations.

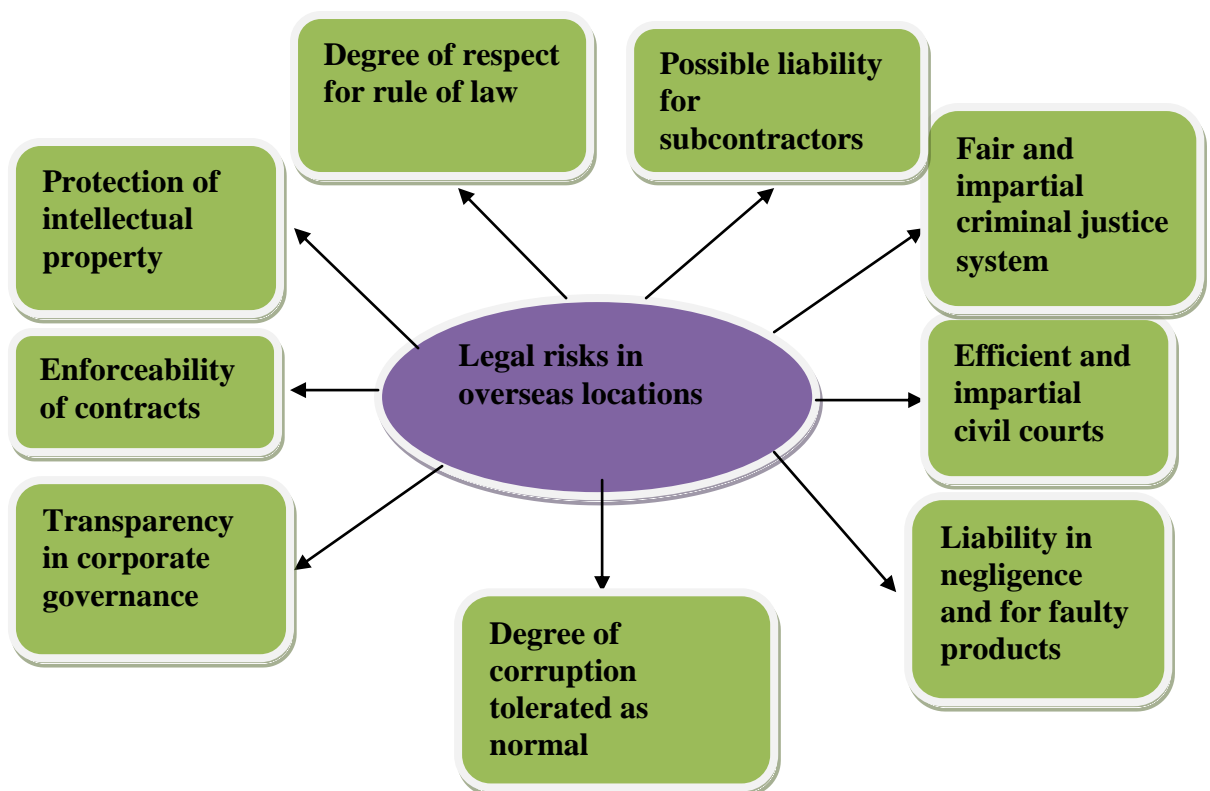


Figure 1. Legal risks in overseas locations (Morrison 2009, 183.)

Many risks presented in the figure are the risks resulting from weaknesses in administration and justice and respect for the rule of law. In cases of dispute, resorting to courts can be frustrating if the court administration is slow, inefficient or even biased. The requirements of an impartial legal system are fair legal and criminal courts. However, even in countries with highly developed legal systems, foreign

companies are often discriminated by the 'home court advantage', meaning that foreign companies are more likely to lose court cases against a local company. Companies need to be aware of the risks involved in the legal environment and is often advisable to have a reliable local partner and an attorney who can deal with the legal issues and bureaucracy. (Morrison 2009, 183.)

Tanzania uses a common law system based on tradition, precedent, custom and usage and interpretation by the courts (Daniels et al 2007, 102). Tanzania's legal system is based namely on the English Common Law system. This is derived from its British colonial legacy, as does the system of government, which is based to a large degree on the Westminster parliamentary model. In addition, the common law system might in some cases accommodate Islamic or customary laws on certain personal and family matters. (Hauser Global Law School Program 2006.)

According to a research by the Hauser Global School Program at New York University School of Law in 2006, the Judiciary system in Tanzania contains four levels: "The Court of Appeal of the United Republic of Tanzania, the High Courts for Mainland Tanzania and Zanzibar, Magistrates Courts (Resident Magistrate Courts and the District Courts) both of which have concurrent jurisdiction. Primary Courts are the lowest in the judicial hierarchy" (Hauser Global Law School Program 2006).

The Judiciary system in Zanzibar is quite similar to the Tanzanian court system, except that Zanzibar retains Islamic courts. The levels in Zanzibar's Judiciary system include Court of Appeal, High Court, and Magistrate Court (or Kadhi's Appeal Courts) and Primary Courts (or Kadhi's court). (Hauser Global Law School Program 2006.)

2.4 Other factors to be considered

According to Daniels et al (2007) some risk factors can occur outside the PESTEL environment. Namely, there are some factors in the organization's external environment that presents risks and opportunities that might directly or indirectly affect the organization's operations and result. The factors to consider include cost and resource availability, liability of foreignness and competitive factors.

Costs and resource availability

Resource availability is often seen as an opportunity factor rather than a risk factor, yet the availability and cost of skilled labor and the availability of raw materials can present challenges in the country of operation. Sometimes companies go abroad to secure resources that are either unavailable or expensive in the home country. Producing in countries with low labor costs is a trend in today's business. Many Finnish companies surely have utilized the cheap labor force in China and setting up factories there. This will not only enable them to serve the huge Chinese markets but also sell the products back in Finland with a cheaper price. However, companies producing abroad should examine labor costs, raw material inputs, capital requirements, utilities, real estate costs, taxes, transportation costs in relation to productivity. After examining this they need to evaluate the labor market size, labor costs, unemployment rates and cost differences among countries. Analyzing labor can be challenging due to differences in a country. For example, China has different areas and it is sometimes difficult to compare two different provinces in terms of labor. This information helps companies plan the production process and evaluate the essence of training. Furthermore, the ease and cost of transportation is an essential factor that companies should consider. The ease and cost of transporting depends on infrastructure and absence of trade restrictions. Thus, researching the means of transport (ship, road, air and rail) is an important part of a market research. (Daniels et al 2007, 421.)

Liability of foreignness

A company operating abroad has a high uncertainty level as the operational environment is less familiar for them. This partly explains why many companies prefer to operate in markets that they are more familiar with. After operating in the target country or a country that is similar, it improves its assessments of consumers, competitors and government actions-reducing the level of uncertainty. The liability of foreignness refers to foreign companies that have a lower survival rate than local competitors. Foreign companies that are aware about the new markets and manage to overcome their problems have similar survival rates to the local companies. (Daniels et al 2007, 424.)

Companies can reduce risks from the liability of foreignness by four measures. Firstly, companies can gain valuable experience by going first to countries with characteristics similar to their home country. This helps companies to gain experience from internationalization process with smaller risk. Secondly, it is advisable to have experienced intermediaries to handle operations. Experienced consulting companies and local partners are often good partners when expanding abroad. Further, companies can operate with forms requiring commitment of fewer resources abroad. This is easier if the company is exporting or does not require the use of raw materials. Lastly, companies can move initially to one or a few, rather than many foreign countries. It is definitely good idea to maintain an exponential process of internationalization, but sometimes the competition is so tough that if a company doesn't expand in time the markets will be conquered by competitors- taking all the best distribution channels and deals. (Daniels et al 2007, 424.)

Competitive factors

A company's innovative advantage might not last long due to competition. A common strategy for exploiting an innovative advantage is "imitation lag", where a company moves first to those countries that are most likely to adapt and catch up the innovative advantage. Once again, by being the first company in a market offers "the first mover advantage", including best partners, best locations and best suppliers and even best relations with the government and media. In some areas companies can find themselves in areas with clusters of competition. The competition is tough but a company can gain information about developments and other relevant information from its competitors. (Daniels et al 2007, 426.)

3 TANZANIA COUNTRY & INDUSTRY ANALYSIS

Chapter three makes a Tanzania country analysis, followed by Tanzania industry analysis for the chosen sectors: mining, renewable energy, telecommunications and construction. Due to the lack of academic and update information about Tanzania various online sources were used. Information was gathered from various local and international Websites including BBC news, CIA, Embassy of Finland, History of Nations, Mbendi Information Services, Stanley St Labs, Tanzania Communications Regulatory Authority, and Tanzania National Website etc. The information about the market and investment possibilities in Tanzania was obtained from Fincorona's Tanzania report that contains information from both primary and secondary sources of information.

3.1 Tanzania country analysis

Introduction

The United Republic of Tanzania is country located in Eastern Africa and on the Indian Ocean. The neighboring countries are Kenya, Uganda to the north, Rwanda, Burundi and the Democratic Republic of Congo to the west, and Malawi, Zambia and Mozambique to the South. Tanganyika became independent in 1961 and Zanzibar in 1963. The United Republic of Tanzania was formed in 1964 in the union of Tanganyika and Zanzibar. (The Government of Tanzania 2010a.)



Figure 2. Map of Tanzania

(Source: CIA 2011)

History

The history of Tanzania can be divided into three parts, the Arab era, the colonial period and the post-colonial period and the formation of Tanganyika. East Africa and Arabia had established trading contacts already in the first century and there have also been strong connections to India. The coastal trading centers were mainly Arab settlements. After the Portuguese arrival in 15th century the position of Arabs was gradually undermined. Arabs still remained solid and started to penetrate further in the interior in the search for slaves. Slaves and Ivory were the most valuable things to trade. The Arabs formed trade towns in the interior in places such as Tabora and Ujiji. (The Government of Tanzania 2010c.)

The first Europeans in Tanganyika were missionaries of the Church Missionary Society. It was Jakob Erhardt (a German Missionary) who inspired explorers like Richard Burton and John Speke to travel to Tanganyika in 1857. Speke was the one who found Lake Victoria. Inspired by Speke, David Livingstone in 1866, set out for his last journey to Lake Nyasa. Livingstone's objective was to expose the horrors of slave trade and by opening a legitimate trade with the interior to destroy the existence of slave trade. His journey led to later expeditions of other explorers such as H.M Stanley and V.L Cameron. (The Government of Tanzania 2010c.)

In 1885 Tanganyika became a German colony in East Africa. Even though the German administration brought cash crops, built roads and railways to Tanganyika, European rule caused African resistance which culminated in the 'MajiMaji' rebellion in 1905-07. The rebellion which united some neighboring southern tribes came to an end only after about 120,000 Africans had died from fighting starvation. The German colonial period of Tanganyika came to an end after the First World War and the control was passed to Great Britain under the League of Nation's Mandate. (History of Nations 2004.)

In 1954, Julius K. Nyerere, a school teacher who was then one of the few Tanganyikans that were educated abroad at the university level, organized a political party called the Tanganyika African National Union (TANU). The party supported candidates were victorious in the Legislative Council elections of September 1958 and February 1959. In December 1959, Britain agreed about establishing an internal self-government. Nyerere was named chief minister of the subsequent government. In May

1961, Nyerere became prime minister as Tanganyika became autonomous. Total independence was achieved on December 9, 1961. Julius Nyerere was elected as the first president in the same time Tanganyika became a republic within the commonwealth. Zanzibar became independent from the United Kingdom on December 19, 1963, as a constitutional monarchy under the sultan. In April 1964 Zanzibar and Tanganyika formed a political union that left Zanzibar a considerable autonomy. The new name was changed to the United Republic of Tanzania in 1964. (History of Nations 2004.)

Geography

Tanzania is the biggest country among the Eastern African countries with a total area of 947,300 sq km. The official capital city is Dodoma but Dar es Salam is the commercial capital. The country has border lines with its neighbors as follows: Burundi 451 km, Democratic Republic of the Congo 459 km, Kenya 769 km, Malawi 475 km, Mozambique 756 km, Rwanda 217 km, Uganda 396 km, Zambia 338 km. The climate varies from tropical in the coasts to temperate in the highlands. (CIA 2011.)

Tanzania is known for its spectacular landscape that has different physiographic features including the islands and the coastal plains in the east and the highland areas in the north. Tanzania has one of the largest preservation of wild animals in the world. It has also beautiful sandy beaches and Africa's highest snow-capped mountain, Mt. Kilimanjaro. In Tanzania there are many widely known national parks and game reserves including Ngorongoro Crater, Selous Game Reserve, Gombe Stream, Tarangire, Lake Manyara, Ruaha, Saadani, Udzungwa Mountains, and Mkomazi Game Reserve. (The Government of Tanzania 2010b.)

Demographics

The basic demographics indicators were collected in table 2

Table 2. Tanzania Demographics
(Source: CIA 2011)

Population	42,746,620
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Age structure	0-14 years: 42% (male 9,003,152/female 8,949,061) 15-64 years: 55.1% (male 11,633,721/female 11,913,951) 65 years and over: 2.9% (male 538,290/female 708,445) (2011 est.)
Population growth rate:	2.002% (2011 est.)
Birth rate	32.64 births/1,000 population (2011 est.)
Death rate	12.09 deaths/1,000 population (July 2011 est.)
Urbanization	Urban population: 26% of total population (2010) Rate of urbanization: 4.7% annual rate of change (2010-15 est.)
Sex ratio	At birth: 1.03 male(s)/female Under 15 years: 1.01 male(s)/female 15-64 years: 0.98 male(s)/female 65 years and over: 0.77 male(s)/female Total population: 0.98 male(s)/female (2011 est.)
Infant mortality rate	Total: 66.93 deaths/1,000 live births Male: 73.7 deaths/1,000 live births Female: 59.95 deaths/1,000 live births (2011 est.)
Life expectancy at birth	Total population: 52.85 years Male: 51.34 years Female: 54.42 years (2011 est.)
Hiv/aids - people living with hiv/aids	1.4 million (2007 est.)
Ethnic groups	Mainland - African 99% (of which 95% are Bantu consisting of more than 130 tribes), other 1% (consisting of Asian, European, and Arab); Zanzibar - Arab, African, mixed Arab and Arican
Religions	Mainland - Christian 30%, Muslim 35%, Indigenous beliefs 35%; Zanzibar - more than 99% Muslim
Languages	Kiswahili or Swahili (official), English (official, primary language of commerce, administration, and higher education), Arabic (widely spoken in Zanzibar), many local languages
Literacy	Definition: age 15 and over can read and write Kiswahili (Swahili), English, or Arabic Total population: 69.4% Male: 77.5% Female: 62.2% (2002 census)

Government

The official name of the country is The United Republic of Tanzania. Jakaya Kikwete has been president since his election in 2005 and is now serving his second term after winning the elections in October 2010. Kikwete has maintained good relations with the West and Tanzania is still a favored destination of international aid. However, in the 2010 elections his political legitimacy had declined when he won 61 per cent of the votes compared to 80 per cent in 2005. Kikwete is a veteran in the CCM party, which has been the ruling party controlling Tanzania and Zanzibar since the independence and union of Tanganyika and Zanzibar. (BBC 2011.)

The Government of Tanzania is a unitary republic based multiparty parliamentary democracy. All the state authority in Tanzania is controlled by the Government of Tanzania and the Revolutionary Government of Zanzibar. The President is the Head of State, the Head of Government and the Commander-in-Chief of the Armed Forces. Other executives in Tanzania are the Vice-President, President of Zanzibar, the Prime Minister and the Cabinet Ministers. The Tanzanian Parliament consists of two parts, the President and the National Assembly. The President exercises authority to assent the law and to complete the enactment. The National Assembly is the principal organ and has been chosen by the people to advise the Government of Tanzania in the discharge of their responsibilities. The Parliament is lead by the speaker and deputy speaker. (The Government of Tanzania 2010d.)

Economy

Tanzania is still one of the poorest countries in the world and among the bottom 10% of the world economies in terms of per capita income. The country is heavily dependent on agricultural productivity as seen in the fact that this particular sector contributes to about 2/3 of the total GDP. It accounts for almost 85% of the total exports and employs almost 80% of the population. Tanzania has also invested much on the growing mining sector as the country has large gold and natural gas deposits. (Stanley St Labs 2009.)

Industry in Tanzania has traditionally featured the processing of agricultural products and light consumer products. Tanzania's economy has been supported by The World Bank, IMF and many other international organizations. Recent banking reforms made

by Tanzania have helped to increase private-sector growth and investment. Donor assistance and solid macroeconomic policies have supported a positive growth rate, despite the worldwide recession. (CIA 2011.)

Table 3 presents the main economical indicators in Tanzania.

Table 3. Tanzania Economy
(Source: CIA 2011)

GDP (purchasing power parity)	\$62.22 billion (2010 est.) Country comparison to the world: <u>84</u> \$58.48 billion (2009 est.) \$55.17 billion (2008 est.) <i>note: data are in 2010 US dollars</i>
GDP (official exchange rate)	\$22.43 billion (2010 est.)
GDP - real growth rate	6.4% (2010 est.) Country comparison to the world: <u>36</u> 6% (2009 est.) 7.4% (2008 est.)
GDP - per capita (PPP)	\$1,500 (2010 est.) Country comparison to the world: <u>202</u> \$1,400 (2009 est.) \$1,400 (2008 est.) <i>note: data are in 2010 US dollars</i>
GDP - composition by sector	Agriculture: 41.6% Industry: 18.1% Services: 38.4% (2010 est.)
Unemployment rate	NA %
Inflation rate (consumer prices)	7.2% (2010 est.) Country comparison to the world: <u>182</u> 12.1 % (2009 est.)
Industries	Agricultural processing (sugar, beer, cigarettes, sisal twine); diamond, gold, and iron mining, salt, soda ash; cement, oil refining, shoes, apparel, wood products, fertilizer
Exports	\$3.809 billion (2010 est.) Country comparison to the world: <u>116</u> \$3.365 billion (2009 est.)
Exports - commodities	Gold, coffee, cashew nuts, manufactures, cotton

Exports - partners	India 8.51%, China 7.55%, Japan 7.12%, Netherlands 6.21%, UAE 5.71%, Germany 5.17% (2009)
Imports	\$6.334 billion (2010 est.) Country comparison to the world: <u>105</u> \$5.834 billion (2009 est.)
Imports - commodities	Consumer goods, machinery and transportation equipment, industrial raw materials, crude oil
Imports - partners	India 13.97%, China 13.71%, South Africa 7.8%, Kenya 6.89%, UAE 4.65%, Japan 4.34% (2009)
Exchange rates	Tanzanian shillings (TZS) per US dollar - 1,423.3 (2010), 1,320.3 (2009), 1,178.1 (2008), 1,255 (2007), 1,251.9 (2006)

Trade with EU and Finland

The most important products that Tanzania exports to EU zone are fish, especially Nile Perch, tobacco, coffee and tea. In return Tanzania imports various products from EU countries including machines, equipment, electronics, medical products and transportation products. (Tullihallitus 2009 referred in Ulkoasianministeriö 2009, 45.)

In 2008 the value of Finland's imports from Tanzania was worth 3 million Euros. The most important product groups were ore and metal trash (60%), coffee and tea (36%). In return Finland exports power machines and engines (26%), fertilizers (36%), phone, radio and TV-equipment (21%). Exports in 2009 accounted to 61.9 million Euros. (Tullihallitus 2009 referred in Ulkoasianministeriö 2009, 45.)

In October 2010 Embassy of Finland together with Tanzanian Chamber of Commerce and the Ministry of Industry, Trade and Marketing organized 'The Tanzania-Finland Business Prospects Seminar' that attracted a total of 130 participants from both countries. The seminar covered the incentives for doing business in a regional market of over 100 million consumers along with the political stability and a growing economy. Furthermore, Finnish funding organizations such as Finnfund, Finnpro, Finnpartnership and Norsad presented their financing possibilities for Tanzanian companies. (Embassy of Finland in Dar es Salam 2010b.)

3.2 Tanzania industry analysis

This part of the thesis analyzes four different industry sectors and presents investment opportunities for Finnish companies.

Mining in Tanzania

Mining has been a rapid growing industry in Tanzania due to gold and diamond exploration. Diamonds, gold, nickel and gemstones have a significant and a growing role in Tanzania's growing minerals industry. But, most improvements have been seen in the gold sector. Between 2003 and 2004 there was a major growth in Tanzania's mining industry. In 2004 the mining sector contribution to the national GDP rose from 3% in 2003 to 3, 2%. In 2004 the value of mineral exports rose to 17% from 2003. In fact, minerals make up over 52% of the country's exports, of which, a large part comes from gold. (Mbendi information services 2010a.)

Gold in Tanzania

Tanzania has emerged to be the third-largest gold producer in Africa after South Africa and Ghana. Annual production of gold has increased from 43.2 t in 2002 to about 48.0 t in 2003. In 2003 Tanzania reported a 20% increase in gold exports from 2002. A tremendous increase in gold exports has resulted in the signing of another gold-mining contract between the Government of Tanzania and Pangea Minerals Ltd. Every year at least one new goldmine is opened. The mines are owned by several corporations. The biggest owners are Resolute Ltd; (Ashanti Goldfields in joint venture with AngloGold), Barrick Gold Corporation, Placer Dome Incorporation and Meremeta Ltd. The Geitamine is one of the biggest goldmines in Tanzania and AngloGold Ashanti owns 50 per cent of the mine. In 2003 the mine produced a record of 661,045 oz cash with the operating cost of 170 million USD compared to 2002 with 579,073 oz at 163 million USD. The increase was due to an upgrade of the crushing and leach tank sections of the processing plant. The upgrade was commissioned in the first quarter of 2003 and the capacity of the plant increased from 4 Mt/y to 5.6 Mt/y. (Euroamerican Data Corp 2006.)

Diamond mining in Tanzania

Diamond exploration is a growing business in Tanzania. The country has only one operating diamond mine at Mwadui, south east of Mwanza, the second biggest city in Tanzania. De Beers owns 70 per cent of the Williamson diamond mine and the Tanzanian government owns 30 per cent of the mine. The Mwadui kimberlite has been a worldwide leader in the production of kimberlite pipes. The mine has produced the amount of 2 Mct since 1930s. In 2003 the mine produced 166 000 carats. The production has dropped significantly due to flooding and exhausted ore reserves. Exploration researchers are looking for new mines for digging kimberlites before the Mwadui pipe is exhausted. Williamson Diamonds undertook a large exploration program during 1940-1970, covering the whole country. More than 300 kiberlite pipes were found and 60 of them were found to have diamonds. However, there is a lack of information concerning the program such as its methods of determining the kimberlites. Modern methods should speed the discovery and evaluation of more diamondiferous kimberlites. (Mbendi information services 2010b.)

Opportunities for Finnish companies

Tanzanian mining sector offers plenty of opportunities for Finnish mining companies. There are opportunities for companies that wish to implement gold and diamond exploration projects. Possible mine areas are often sold to new miners that have enough capital and expertise. There is also a possibility to invest in the existing mining corporations with good returns of investment. Further, Tanzania has a huge mining industry, thus there is a need for quality machines and tools. Drilling tools, measurement devices, jack hammers (drill bits, rods), underground ventilation systems and underground vent tubing technology have enormous demand. With a competitive price and a quality products Finnish companies could find huge markets with a surprisingly large purchasing power. (Fincorona 2010.)

Renewable energy in Tanzania

Renewable sources of energy are increasing popularity worldwide, also in Tanzania. Especially, the use of solar energy from solar panels is already a common form of energy for many private and corporate houses. Solar panels are imported from China, Germany and Japan. The growing markets of renewable energy in Africa give Finnish companies a chance to internationalize. However, price must be competitive and

product information needs to be available at least in English language. (Fincorona 2010.)

Energy in Tanzania

Tanzania being a developing country is seen in the country's low level of industrialization, namely the energy demand and the supply do not meet. Most people do not have access to electricity, especially in the rural areas which are nearly completely excluded from modern energy supply. In fact, 2 per cent of rural population and 39 per cent of urban population have access to electricity, meanwhile 94 per cent of rural population use biomass as a source of energy. Household cooking is in the top of energy consumption, thus, only 1 per cent use electricity for cooking. The majority use traditional biomass energy sources such as firewood and charcoal. These biomass sources account for 70 per cent of the total energy demand of 90 per cent. The Tanzanian electricity utility is a member of the Southern African Power Pool which aims at stabilizing energy supply and facilitating export to the neighboring countries. In Tanzania, 60 per cent of the electricity is generated by hydropower. (PROBEC 2009a.)

Support and development

Several governmental institutions have been founded for energy development, especially for bio-energy. The Ministry of Energy and Minerals has been working since 1984 and conducted several projects for renewable energy. Other related agencies include: Ministry of Natural Resources and Tourism, Ministry of Agriculture and Food security and finally Ministry of Industries and Trade. (PROBEC 2009b.)

Opportunities for Finnish companies

There are a large number of renewable energy companies in Finland providing renewable energy solutions. Finland offers high-quality products including: solar panels, wind turbines and accessories. Tanzanian solar panel distributors would like to co-operate with Finnish companies providing high-quality renewable energy products. One local distributor of solar panels says he orders a package at the time from China or Germany and the products are transported by air freight. For example, he wanted to order the following product package: 100 W solar panel for 5V, 65 W solar panel for 5 V, AH 100 Battery for 6V, AH 150 Battery for 5V, and Sundaya- 92 light bulbs.

None of the Finnish companies that were contacted by Fincorona were interested to supply these products. As a result, he continues to order similar products from China. Another problem with Finnish companies for renewable energy is price as well as the lack of product information in English. Finnish products are seen too expensive for the local markets and are often replaced by cheap Chinese products. If Finnish companies want to be competitive they need to make their product seen in the market. Exhibitions in Africa could be a path to create awareness about product solutions Finnish companies have to offer. Furthermore, Tanzania offers huge opportunities also in terms of wind power. Building wind farms in areas in Dar-es-Salam, Tanga and Arusha would be beneficial for whole villages and communities. Supported by Finnish and local governments renewable energy projects are possible. (Fincorona 2010.)

Telecom in Tanzania

In the past, telecommunications in Tanzania have been rather unreliable. Mobile phone services have been the luxury only in urban areas, although the government has tried to establish a nationwide network. Competition in telecommunication sector has got stiffer as Tanzania's competition regulatory authority allowed four more cellular phone providers. The mobile market was expected to break 50 per cent penetration barrier during 2010. (TOTEL PTY LTD 2010.) At the moment there are thirteen registered cellular phone providers: Airtel Tanzania Ltd, Zanzibar Telecom Ltd, 6 Telecom Company Ltd, Vodacom Tanzania Ltd, Celtel Tanzania Ltd, Seacom Tanzania Ltd, Smile Communications Tanzania Ltd, MIC Tanzania Ltd (Tigo), Benson Informatics Ltd, ExcellentCom Tanzania Ltd, Dovetel Ltd, Epoque& Golden Ocean and My Cell Company Ltd. The biggest phone operators are Vodacom, Airtel, Zeltel and Tigo. (Tanzania Communications Regulatory Authority 2010.)

Internet network has been available since 1996 in Tanzania. There is no optical fiber connection available yet, instead connectivity is over Satellite network; using 2-3 G function modems. The fiber project is expected to link the major urban centers and bring internet connection with a reasonable cost. The cost of the project is estimated to be 300 million USD. (Reuters Africa 2010.)

Internet service providers in Tanzania are Africa Online Tanzania, Afsat Communications Tanzania Limited, Arusha Node Marie, Benson Online, Cats-Net,

Kicheko, Raha, Spicenet, Tansat, TTCL, ZanLink and Juasun net. (Tanzania Internet Service Providers Association 2010.)

Opportunities for Finnish companies

As Tanzania's telecom industry is going through rapid changes Finnish companies' high-tech products and expertise could find potential markets. Telecom infrastructure is something that that needs a lot of development. Both mobile and internet technology needs high-quality products and solutions with a competitive price. (Fincorona 2010.)

Construction in Tanzania

Construction sector in Tanzania is one of the most growing sectors in the country. There have been rapid developments in the country's infrastructure, namely improvements in roads, housing etc. The growth rate of the sector was almost 12 per cent in 2005 as in 2004 was 10.8 per cent. Tanzanian government has been supporting growth in the sector especially in the fields of infrastructure, transport and communication. The significance of this sector can be seen in its contribution for economic opportunities such as encouragement of trade, tourism and FDI, access to local markets, increased competition and a decrease in the unemployment rate. Infrastructure development projects often require a partnership with an experienced partner and investor. This creates many opportunities for foreign companies who wish to expand to Tanzania. Namely, house building projects for low, medium and high income people are booming. The ministry of infrastructure welcomes all investors to participate the development and poverty reduction of Tanzania. (Tanzania Invest 2008.)

Due to the youth of the industry there is a limited amount of professionals with a low technology in use. The country as a whole has been relying on foreign companies to train the locals and run the construction projects in the country. The problem has been that local contractors have not received enough support from the government or funding from other financial institutions. (Chiragi 2000, 17-2.) Another problem is the fact that construction business is the most corrupt industry worldwide, also in Tanzania. The government has taken several measures to prevent the corrupt practices in the industry. (Construction Sector Transparency Initiative 2010.)

Opportunities for Finnish companies

Construction sector offers significant opportunities for Finnish companies. Lemminkäinen and other road construction companies could win big tenders if they would be active and keep their price competitive. Furthermore, all contractors and material and machine providers could find huge market opportunities either in the government level or through companies like Fincorona. (Fincorona 2010.)

4 RESEARCH METHODOLOGY AND FINDINGS

Chapter four describes the research methodology and presents the findings of the research. The chapter defines the main concepts including qualitative research method, semi-structured interview, data analysis and validity and reliability. The chapter additionally introduces the respondents of the research and presents the main findings gathered from both researches.

4.1 Research methodology

Due to the small amount and type of data in both researches, qualitative research type was used in a form of semi-structured interviews. The research part consists of two interviews, one that interviewed Tanzanian organizations and another one that interviewed Finnish organizations that had been operating in Tanzania. Five Tanzanian representatives chosen by personal contacts were interviewed to understand their opinions about Finnish companies. They were asked to identify the opportunities and risks related to the Tanzania's operational environment as well as market and investment possibilities. Furthermore, eight representatives of seven Finnish organizations were interviewed to find out their experiences in Tanzania. The information about the Finnish companies and NGO's in Tanzania was obtained from the Finnish Embassy in Tanzania and from personal contacts. The companies were asked to describe their operations in Tanzania, analyze the risks and opportunities as well as market and investment opportunities in Tanzania.

Introduction to qualitative research method

Qualitative research is one research method type used in social sciences. It is often compared to quantitative research method. The researches are quite similar but qualitative research is a deeper research and stretches beyond the statistics and figures. In other words, quantitative research cannot deal with social and cultural construction of own variables. Qualitative research is particularly relevant when prior insights about a phenomenon under scrutiny are modest. This means that this research type is more exploratory and flexible due to the unstructured problems. (Eriksson & Kovalainen 2008, 4-5.)

Due to the small amount of data it was clear from the beginning that qualitative method will be used. Deciding the data gathering method was a more challenging decision as both questionnaires and interviews have their own pros and cons. Finally, it was decided that interviews could bring better results and semi-structured interview was chosen as an interview type. The Tanzanian respondents were interviewed in person as the Finnish respondents were interviewed using Skype.

Semi-structured interviews

Eriksson and Kovalainen (2008,80) defines guided or semi-structured interviews as an outline of topics, issues, or themes, but variation in wording sequence; both 'what' and 'how' questions. The interview questions are proceeding in a systematic way, even though it is possible to change the order and the wording in each interview. The tone of the interview is usually conversational and informal. This method is suitable for experienced interviewers, thus all the topics need to be covered and in the same time be prepared to give in-depth responses. However, being too structured and having all topics ready can prevent the respondent from raising other important and relevant issues. Semi-structured interviews cannot be analyzed very empirically as all the respondents might have their own interpretations about the questions. (Eriksson& Kovalainen 2008, 82.)

Semi structured interviews were used in both of the researches conducted in this thesis. This type of interview suited well in the frame of reference and the purpose of the thesis. Combined with the theory from books and articles the interviews were used to support the understanding of Tanzania as a target country for Finnish companies and NGO's. Both interviews had similar topics and questions, thus, provide answers to the same research questions from different point of views. However, the interviews with the Tanzanian respondents were more open and the operational environment factors were not presented to them, instead, the participants had a possibility to raise the same opportunities and risks as the Finnish respondents. The risks in the operational environment were presented to the Tanzanian respondents in the last question and they had a possibility to pick up three most significant risks.

Selection of the interviewees

The Tanzanian respondents were chosen by personal contacts, thus it was not planned to interview two security companies, one insurance corporation, one cosmetics company and one non-governmental organization. The plan was to interview people especially in the mining, renewable energy, telecom and construction sectors, but due to the busy Christmas season, these were the ones that were willing to participate in the research. The interviews were conducted in the respondent's office or some other convenient place. Due to the limiting time factor it was not possible to interview the top management of those companies. As a result, employees, ex-employees and one shareholder were interviewed. All the interviews for Tanzanian respondents were conducted in Mwanza, Tanzania 17-23.12.2010. However, the last question (choose 3 most significant risks) was presented to them 14-20.2.2011 by e-mail and phone calls.

The information about those Finnish companies in Tanzania was obtained from the Finnish Embassy in Tanzania and while doing the in-depth internship in Tanzania. The list obtained from the Embassy consisted of eight organizations and five of them participated in the research. In addition, contacts with two non-governmental organizations operating in Tanzania were obtained by personal contacts. Even though, NGO's are often not concerned with utilizing the market and investment opportunities, it was seen that they would add value to the research with their long history in Tanzania. All the respondents were interviewed using Skype 20.01-06.02.2011. Most interviews were recorded for personal use under the respondent's permission.

The interviews are kept confidential and coded so that it is not easy to identify participants from any particular quotes. The interviewee's real names and organizations are not mentioned in the context of the research. After considering the ethics of such an interview it was not seen necessary to create a separate ethical statement, knowing that the interviews do not deal with any ethically vulnerable issues.

Data analysis

There are many ways of analyzing qualitative data, naturally depending on the nature and amount of the data. According to Kaustinen (2008, 57) a computer-based data analysis is possible with qualitative data. However, because of the relatively small number of data in both researches the analysis was done manually, instead of electronically with a computer. Only Excel was used to create a bar chart to indicate the significance of each risk factor. Furthermore, thematic analysis method was used to identify certain themes that rose from the data. Eriksson and Kovalainen (2008, 309) defines thematic analysis as a form of analysis which has a theme or category as a unit of analysis and it looks across data to identify the themes from various sources. The reason for using thematic analysis is because it provides the best answers to the research questions and it fits well in the content of the thesis. Basically, the risks, opportunities, market and investment opportunities and reasons for Finnish companies not operating in Tanzania were analyzed in a thematic way. The researches were analyzed separately but at some point the essential themes were merged.

Validity of the research

According to Eriksson and Kovalainen (2008, 101), validity is concerned with whether the findings are really about what they appear to be about. Some common threats to reliability are subject of error, subject of bias, observer error and observer bias. The most common question is that would the interviews have provided with the same results with another researcher.

In the research for Tanzanian companies the interviews could have produced slightly different outcomes if the interviewer would not have had any previous relation with respondents. Giving honest opinions to strangers can be problematic in some cultures. Even though, most of the respondents are not in the top level management of their companies, but were the best possible choices under the time frame. However, it must be noted that two respondents are not paid workers of the organizations they represent, thus their opinions do not actually represent the companies. The aim was to get as many respondents that had at least been working in a company they would base their opinions on. Secondly, the interviews with the Finnish companies in Tanzania could also have provided slight variations in the results if the interviews were conducted by

another person. Namely, a more experienced interviewer would have probably got more out from the respondents in both researches. For example, it could have brought better results to have exactly the same questions for both interview groups. On the other hand, the rising of different themes was mostly up to the respondents, thus the occurrence of common themes just supports the theoretical framework presented in this thesis.

The validity of the research was satisfactory with both the aspect of reliability and validity. The structure of the interviews and the research questions proved to work well with the Tanzanian respondents, but with the Finnish respondents the questions were adjusted several times. As a whole, the questions were understood reasonably well and the themes that aroused support the frame of reference. However, the sample is too small to make any conclusions just based on the interviews. Nevertheless, the data can be used to help new companies who are planning to expand to Tanzania or a similar country.

4.2 Interviewed Tanzanian organizations

This part presents the Tanzanian companies interviewed in this thesis. The real names of the companies and NGO's are not used to protect the personal data act required in researches. (Henkilötietolaki 22.4 1999/523.) The names were changed according to their field of operation. The interviewed Tanzanian companies were:

Company Insurance

Company Insurance is a national health insurance company in Tanzania. The company employs about 350 workers all over Tanzania. The interviewed branch is located in Mwanza, the second biggest city in Tanzania. The interviewee is the marketing manager of the Mwanza branch.

Company Cosmetics

Company Cosmetics is a supplier of cosmetic, household and detergent products. Their best known product is the Whitedent toothpaste, which is the highest selling toothpaste in Tanzania. The company employs 25 workers in the Mwanza branch and many others in other cities/countries. The interviewee is a salesman and part of the Cosmetics marketing management team.

Security A

A-Security is a new security company established in 2010. The company offers security services including guarding services for individual and companies, GPS vehicle trackers, car alarms and other related services. The company employs 45 workers, all in Mwanza and Mara region. The interviewee is one of the founders and present shareholder of A-Security.

Security B

B-Security is a foreign-based security company that has been operating in Tanzania since 1997. The company provides a large diverse of security solutions; ranging from the provision of premium commercial and residential security solutions in rural areas to large agricultural estate security, mining, ports foreign missions and embassies. The number of employees in Mwanza branch is about 50. The interviewee is an ex-worker of B-Security but had much useful information about the company.

MVC

MVC is an educational service centre built by Fida International to support the youth in the area by offering education, training, fellowship and other support programs. The organization employs around ten workers. The interviewee is currently a volunteer in the MVC and have previously been working there as a paid worker in the free time activities and in administration tasks.

4.3 Interviewed Finnish organizations

This part presents the Finnish companies interviewed in this thesis. The real names of the companies and NGO's are not used to protect the personal data act required in researches. (Henkilötietolaki 22.4 1999/523.) The names were changed according to their field of operation. The interviewed Finnish organizations were:

NGO A

Ngo A, originally founded in 1927 is a Finnish church-based missions and development organization. The organization operates in almost 60 countries together with local partners and employs 347 missionaries, 314 trainees and 298 workers in the Helsinki headquarters combined with the staff working in the Second hand shops.

Since 1974 Ngo A has carried out development co-operation with support from the Ministry for Foreign Affairs of Finland, therefore, most of the funding comes from the Ministry and the rest from the churches and second hand shops. The organization has operated in Tanzania for 60 years. Ngo A has 8-10 Finnish expatriates working in Tanzania in development and church-based projects in co-operation with the local church- partner. The interviewee is the chief technical advisor and the field secretary who has been living in Tanzania for two and a half years with his family.

NGO B

Ngo B is a church based association founded in 1859 to deliver the gospel of Christ to all over the world and help the less fortunate ones. The organization operates in 30 countries in co-operation with the local partner. Ngo B employs totally 347 workers from which 153 work directly with the local partners. Ngo B has operated in Tanzania for more than 70 years and today employs 20-25 missionaries. More than 70 per cent of the monthly budget is used for the foreign operations, others for training, communication and fundraising in the home country. The interviewee is a coordinator of missions' and-evangelizing operations and has lived four years in Tanzania with his family.

NGO C

Ngo C is a Tanzanian non-governmental organization, also registered in Finland, which aims to develop community work projects in towns and villages in Tanzania. They arrange short and long-term volunteer placements in various areas such as information technology, teaching, health, women groups, handicrafts, music, sports coaching and environmental and conservation projects. They operate in various locations around Tanzania, including, Dar es Salam, Moshi, Arusha, Masai land and Zanzibar. Ngo C has operated in Tanzania for 16 years and currently they have 80 paid workers and 100-250 trainees at a time. The interviewee is the founder and chairman of Ngo C.

Company Harbor

Company Harbor is a service company with a combination of local knowledge, international experience and technical know-how. The field of operation is stevedoring, namely bulk cargo handing projects and provision of consultation services. The company employs 40-45 workers in Tanzania. The company has been

operating in Tanzania since 2004. The interviewed person is the director of business development in Harbor who has been working with the company from the beginning.

Company Energy

Company Energy is a global leader in complete lifecycle power solutions for the marine and energy markets. It is a market leader in diesel natural gas engines, bio-power solutions and a complete propulsion systems and services. The company operates in more than 60 countries and employs 18 000 people worldwide. The company has been operating in Tanzania since 1998. Two respondents of Energy were interviewed. Interviewee A was the managing director of the Tanzania branch 2004-2010 as the interviewee B had been working with Energy Tanzania branch since 1998 and is the current managing director of the branch.

Company Development

Development is a consulting company originally founded in 1956 in Denmark, but has branches in several countries, including Finland and Tanzania. Development Tanzania branch is 99% Danish owned and 1% Finnish owned company that deals with different development projects around the country. In Tanzania the company deals with mainly rural area and natural resource development. The local branch was founded in 2004 and the Finnish Development has operated in Tanzania since 80s. The interviewee has been working in Tanzania as a country representative since 2003.

Company Tourism

Company Tourism was one of the first tour operators founded in Arusha in 1985. The company is a family owned business offering tailor- made safaris and trips in Tanzania. The company serves a large range of target groups and the majority of the guests are people related to church-, school and NGO activities. Tourism arranges safaris to the national parks, game reserves, conservation areas as well as historical and cultural sites. The company employs 32 workers in Tanzania. The interviewee is the managing director of the company.

4.4 Research findings

The purpose of this part is to analyze both researches and present the themes that arose from both interviews. Secondly, the interviews presented various market and

investment opportunities for Finnish companies in Tanzania, showed reasons why many Finnish companies have not found their way into Tanzania and described the possible risks for Finnish or any international companies in Tanzania.

To start with, the research results were summarized in a brief analysis of the Tanzanian and Finnish organizations, followed by the themes arising from the interviews.

4.4.1 Brief analysis of the interviewed Tanzanian organizations

In the research five respondents of different Tanzanian organizations were interviewed to find out their opinions about Finnish companies and to identify opportunities and risks. The companies for interview were Insurance, Cosmetics, A-Security, B-Security and MVC.

When asked to identify Finnish companies all respondents identified Nokia. Other Finnish companies that were also known were Fincorona (MVC, Cosmetics, A-Security and Insurance) and Fida international (MVC, Insurance and B-Security). This might have been as a result of my previous interaction with these companies.

All of the respondents had a mostly positive view of Finnish companies and appreciated the quality of the products and services coming from this northern country. Only MVC had actually been doing co-operation with a Finnish organization, still the respondents of Insurance and B-Security had heard about Fida International and its development programs in Tanzania. The respondent of B-Security had heard about Valmet's history in Tanzania and was sorry that the co-operation ended in that particular project. Respondents from Cosmetics and A-Security also criticized Finnish companies being reluctant to do business in Tanzania. The respondent of Cosmetics saw that the reluctance is due to riskiness and highly priced, one-standard products that won't succeed in the markets.

All the respondents encouraged Finnish companies to be courageous and expand their businesses to Africa and Tanzania.

4.4.2 Brief analysis of the interviewed Finnish organizations

In the research eight respondents from seven different Finnish companies and NGO's operating in Tanzania were interviewed to find out their experiences in the country. The interviewed companies and organizations included Energy, Harbor, Tourism, Development, Ngo A, Ngo B and Ngo C. Two respondents from Energy were interviewed and their opinions and their experiences combined. Respondent A and respondent B are used to differentiate the two interviewees of Energy.

Five respondents represent profit-making businesses, two represent church-based non-governmental organizations and one represents a self-sufficient NGO. Both Ngo A and Ngo B have been working in Tanzania for value-based reasons for several decades, Ngo A since 1950s and Ngo B since 1930s. The respondents of Energy (A) and Development stated historical traditions, referring to Finland's and Tanzania's long development history as an encouraging factor to choose Tanzania as a country of operation. Respondent A from Energy saw that other encouraging factors to choose Tanzania were the significant developments in the country's economy and operational environment as well as currency stabilization. Energy officially entered Tanzanian markets in 1998 by establishing Energy Tanzania branch. Development has been operating in Tanzania since the 1980s but Development Tanzania branch was established in 2004. Company Harbor was established in 2004 after finding a clear need for their kind of business in Tanzania. The founders of Harbor had been working in Tanzania in other duties before the establishment of the company. Company Tourism was founded in 1985 by a missionary couple and has continued as a family business ever since. Ngo C was founded in Tanzania in 1995 due to political instability in another African country and Tanzania was seen as a stable and potential environment for their kind of work.

4.4.3 Operational environment and potential risk factors

The operational environment part combines the experiences of those Finnish organizations that have been operating in Tanzania and those local organizations that know their country and markets. All respondents were asked to pick up the three most significant risks involved in Tanzania's operational environment. It must be noted that the respondents from Ngo B, Ngo C, Harbour and Energy (A) chose only two most significant risks.

Political stability and security factors

All the Finnish respondents stated that Tanzania is politically stable compared to many other African countries. Tanzania is a multiparty democracy and has been ruled by the Revolution Party since the independence and the union with Zanzibar (BBC 2011). However, all Finnish respondents except Tourism mentioned that the political environment is starting to change. The respondents of Ngo A, Ngo B, Ngo C and Harbor mentioned that the last presidential and parliament elections in 2010 resulted in some protests and demonstrations and were concerned about the situation in the coming elections. The respondent of Ngo B raised a concern that during the next elections in 2015 it might not be safe for foreigners to be in the country. The respondent of Ngo C predicted some unrest but nothing compared to the Kenyan post-election violence in 2008 that was mostly caused by tribal conflicts. The respondent of Development saw it as a positive phenomenon that the political discussion has opened up and did not see it as a significant risk factor. The respondent of Tourism also saw Tanzania as a politically stable country and that there has not been significant uprising due to political reasons.

All Finnish respondents saw Tanzania as a relatively safe country to work and live in, but there are many security risks that can be prepared against. The respondent of Tourism noted that most areas are fenced and guarded by private security firms. The respondent of Ngo A also mentioned the risk of armed robberies, especially at the night time. All Finnish respondents saw that security risks are something that can be minimized by proper precautions.

Only respondent B from Energy considered political risk among the top three significant risks in Tanzania. Despite the changes in the political environment, Tanzania is still considered secure and politically stable country compared to its neighbors. None of the Tanzanian respondents brought up political factors as a potential risk factor.

Legislation and bureaucracy factors

All Finnish respondents saw the legislation and bureaucracy situation in Tanzania rather challenging. Respondents of Energy (A&B), Tourism, Ngo C, Development, Insurance, Cosmetics, A-security and B-Security rated it as the most significant risk factor. Further, the respondent of MVC included it among the top three risk factors.

Issues such as unclear tax laws, poor implementation, everlasting court processes and corruption were brought up.

According to the respondents of Ngo A, Ngo B and Ngo C the legal environment in Tanzania is troublesome as the laws exist but the implementation is poor and usually depends on the implementing officer. The respondent of Ngo B noted that in Tanzania the official duty is quite vague and the level of service often depends on the relationship between the officer and the customer. Both respondents of Energy stated that the legislative and bureaucratic environment is rather problematic, referring to their experiences with the implementation of tax policies. Both respondents gave an example of a tax inspection made to them in 2008 and having used the 'wrong' exchange rates, the tax authorities imposed a significant amount of extra tax to be paid. Energy appealed to Tanzania's tax appeal board who just ordered the tax authority to deal with the case and ordered Energy to pay one third of the amount. Since there is not a clear code of conduct concerning the handling periods the case is still unsolved.

Another example that both respondents of Energy gave was the renewal process of work permits that is very bureaucratic and can be a risk even when starting the renewal process early enough. Furthermore, the respondents of Energy (A&B) and Ngo C saw that the corrupted legal system can be a significant risk if there is a need to go to court as the judges are often bribable and even a simple court process can last for many years. The respondent of Ngo C added that procedural mistakes dealing with the human resources can result in significant amount of fines and that is why they use an attorney to deal with the procedures of warnings and layoffs.

According to the newest level of corruption list, Tanzania shared the place 116 together with Ethiopia, Guyana, Mali, Mongolia, Mozambique and Vietnam (Transparency International 2010). Even though Tanzania is among the most corrupted countries in the world, in African scale it is not the worst case scenario. All the Finnish respondents have run into corruption in one way or the other and all of them saw it as a risk rather than opportunity. The respondents of Ngo A, Ngo B, Ngo C and Development mentioned having run into corruption in everyday life in one way or the other. The respondent of Ngo A saw that corruption is sometimes hidden and mentioned police officers giving a ticket without a reason.

Furthermore, the respondents of Ngo A, Ngo B, Development, Harbor, A-Security, Insurance and Cosmetics saw that corruption occurs often in the form of process delays, where the implementing officer might expect a bribe to make the process faster. The respondent of A-Security saw that for example the custom taxation and tariffs are not very clear even for the locals. The respondents of Harbor, Tourism, Energy (A&B), Ngo B, A- Security and Cosmetics advised that the best approach is to follow the laws and legislations and have all the necessary permits and licenses in paper. Both respondents of Energy and Ngo B mentioned that their organization have a separate code of conduct inside the organization that forbids corruption under any circumstances.

Resource availability

The resource availability in terms of labor force and raw materials was seen satisfactory in Tanzania. However, the respondents of Harbor, Ngo A, Development and A-Security rated the lack of skilled labor as one of the three most significant risks. Furthermore, the respondents of Harbor, Development and Ngo C saw the finding of skilled and motivated labor force as a potential challenge for companies coming to operate in Tanzania. In addition, the respondents of Harbor and Ngo C saw that many Tanzanians have a poor working morale. The respondent of Development added that reliability of workforce is another issue that should be considered. Furthermore, the respondent of Ngo A saw that it is possible to find skilled workers in Tanzania, but the costs might be higher than expected. In addition, both respondents of Energy saw that in their field there is no trained workers, thus all the employees need to be trained by offering internships for students. In terms of raw materials, respondent A from Energy said the company to be dependent on importing certain raw materials. Lastly, the respondent of Ngo B saw that the resource availability is an opportunity rather than a risk, as people can be trained for many kinds of jobs.

Infrastructure

Tanzania being a developing country raises many challenges in terms of infrastructure. The respondents of Tourism, Development, Ngo A, Insurance and A-Security rated infrastructure among the three most significant risks. All the Finnish respondents, except Harbor, mentioned that there has been much development in terms of road infrastructure. The respondents of Tourism, Development and Ngo A

noted that the main roads are good, but the roads in rural areas are often very poor. The respondents of Development and Ngo C added that the rapid increase in vehicles in the country have resulted in huge traffic jams in bigger cities. According to the respondents of Ngo A and Harbor railway connection exist, but the network is very poor, thus it is mostly used for cargo transportation. The respondent of Ngo A added that there is also a relatively good bus connection available, but involves risks when choosing a poorly maintained bus. The respondents of Ngo A and Ngo B mentioned that there is a nationwide small-plane network that is relatively reliable, but rather expensive. In addition, the respondents of A-Security and Cosmetics mentioned transport risk as a result of poor road infrastructure.

All Finnish participants, except Ngo B, saw electricity as a major challenge and saw a need to have a backup power system (e.g. fuel powered generators). Since October 2010 there has been nationwide electricity-distribution scheme, resulting in continuous power cuts around the country. According to Tanzania's local news (ITV November 2010), the reason has been a broken transmitter in the power plants, but in the beginning of 2011 the reason was said to be the lack of rain, as Tanzania relies mostly on hydropower. Only the respondents of A-Security and Insurance from the Tanzanian respondents saw electricity as a potential risk factor. According to the respondents of Development and Ngo B the water supply is relatively good in cities, but for the poor and the people living in rural areas there is no proper water supply.

According to the respondents of Development, Ngo A, Ngo B, Ngo C and Energy (B) there has been a rapid development in the country's telecommunication sector. Furthermore, the respondent of Ngo B and Development brought up the fact that today there are many mobile and internet network service providers and the quality has improved much in the past few years. Nevertheless, the respondent of A-Security saw that poor internet connection can result in inefficiency if the company is dependent on good communication through internet.

Economical and financial factors

Tanzania's economical environment was seen rather stable and it was not seen as a major risk factor. However, the respondents of Development, Tourism, Harbor, Ngo B, Ngo C and Cosmetics mentioned Tanzanian currency fluctuation and inflation as factors of consideration. Respondent A from Energy saw Tanzanian Shilling as a

relatively stable currency compared with many other world currencies. Respondent B from Energy added that they make all contracts in Euros or US Dollars and often use a fixed rate system. The respondent of Ngo A noted that a strong Euro currency can sometimes be an asset when transferring money from Finland to Tanzania.

Furthermore, the respondents of Tourism, Ngo A and Ngo B saw that the banking sector have developed rapidly and offering even Euro and US Dollar accounts and a possibility for electric banking inside the same bank. However, some bank-related problems arose from the respondents of Ngo A, Ngo C and Harbor. Firstly, the respondent of Ngo A stated that generally banks are understaffed and over utilized resulting in long queues and slow service. Secondly, the respondent of Ngo C saw significant differences between different banks and had experienced somewhat 'weird' problems in one particular bank. Furthermore, the respondent of Harbor saw banking services as expensive compared with many other countries.

Only the respondent of Tourism rated financial risk among the top three significant risks. Overall, the economical and financial sector in Tanzania has been stable for many years and currency fluctuations can be both a risk and an opportunity depending on the business and situation.

Liability of foreignness

Liability of foreignness refers to the fact that as a foreigner it is naturally more difficult to operate in a foreign country compared to operating in the home country as it might be more difficult to obtain information, build reliable networks and communicate. The respondents of Development, Harbor, Ngo B, Ngo C, B-Security, Cosmetics, Insurance and MVC listed liability of foreignness in one way or the other as one of the three most significant risks.

According to the respondents of Development and Tourism the overall atmosphere is welcoming and establishing relationships is rather easy as people are more open than in Western countries. However, according to the respondents of Development, Ngo B, and Ngo C the relationships are often superficial and there is a risk of being exploited. Furthermore, the respondents of Ngo A, Ngo B, Insurance, Cosmetics and B-Security brought up the language issue, which might even be an obstacle in some parts of Tanzania where English is not spoken that well. Sometimes it might be difficult to

establish relationships and communicate if the local language is not familiar. However, all Finnish respondents, except the respondent of Ngo B, stated that in Tanzania it is possible to get along with English. The respondent of Ngo A has not needed Swahili in the work but has sometimes felt left out when his colleagues are talking in Swahili.

Then how can a Finnish organization get information about Tanzania? According to the respondents of Ngo A and Energy (B) the Finnish Embassy in Tanzania is always a good place to get reliable and up-to-date information. The respondents of Harbor and Ngo C suggested that it is advisable to contact those Finnish companies that have operated in Tanzania and know the legal procedures and the best ways of operating in Tanzania. The respondent of Development suggested finding a reliable local partner that knows the laws and the best ways of operating in Tanzania.

The respondent of Ngo B brought up a risk that many Finnish development projects have run into. Many Finnish development projects have failed due to the fact that many of the projects that have been designed in Finland or that have succeeded in Finland have not worked in Tanzania. Sometimes it is better to develop the facilities and skills that already exist rather than bringing new projects. If the locals are not committed themselves in the project, the project is in vain as there is no continuity.

Competitive factors

The competitive factors refer to competitors offering the same products and services. Sometimes this involves the 'imitation lag' where a competitor might even offer counterfeit products copied from the company in question. (Daniels et al 2007, 426.)

Firstly, the respondents of Ngo A, Ngo B, and Ngo C did not see competition as a significant factor that would affect their operations. Others had run into moderate levels of competition, except the respondent of Tourism, who mentioned having 150 competitors only in Arusha and many more in other cities. Secondly, the respondent of Harbor noted to have seen and experienced unfair competition, where the companies are not following the tax laws and avoiding taxes. Furthermore, Energy has 4-5 global competitors in Tanzania and according to respondent B the competition is sometimes pretty tough, referring to unfair competition where competitors might pay for tenders or use corruption as the means of winning tenders. Cosmetics have also

experienced tough competition and the respondent saw the fair and unfair competition as significant risk factors especially for international companies. In addition, the respondent of Ngo B has not experienced competition himself, but noted that for example the Finnish mobile phone manufacturer Nokia is being replaced by Chinese 'counterfeit' products. He gave an example that in one mobile store in Mwanza, there was only one original Nokia phone and the rest were counterfeit Chinese Nokia's in Nokia's covers. Lastly, the respondents of Insurance, Cosmetics, A-Security and B-Security added that too highly priced products cannot compete with the cheap Asian alternatives. The respondent of Cosmetics also saw Nokia phones as good example of a company that has been replaced by the Chinese counterfeit products. He estimated that 90% of the mobile phones in the markets are Ncio or other counterfeit Nokia and an average user chooses the phone with better functions despite the quality. Only the respondent of Cosmetics rated competitive factors among the top three risks.

Cultural factors

There are cultural differences even inside the same country, not to talk about between two totally different countries. Cultural differences are something that should be recognized and respected. The respondents of Ngo A, Ngo B, Energy (B), MVC and B-Security rated cultural risk as one of the top three risks. The importance of language was already discussed in the liability of foreignness section.

The concept of time is something to be considered says the respondents of Energy (B), Tourism, Ngo A and Ngo B. In Tanzania the person comes first and the issue second, unlike in Finland where dealing with the issue is more important than dealing with the person. Not understanding this can result in a cultural clash, namely Finns often see that their Tanzanian workers or colleagues have no motivation to get the work done and are spending too much time chitchatting. Sometimes it might be difficult to start a meeting if the participants have not arrived, says respondent B from Energy. On the other hand, the Tanzanian might feel that the Finn is neglecting their relationship or doesn't understand that it is appropriate to be late for a good reason.

Another difference that the respondents of Energy (A&B), Development and A-Security mentioned is the in-direct approach used by Tanzanians. Respondent A from Energy stated that it is difficult for an average Tanzanian to take constructive criticism, not to talk about giving it to others. Not being able to give and receive

feedback is something that will in the end hurt the organization as the same mistakes will be done again and again. The respondent of Development added that honesty is not very appreciated and have noticed that people would rather lie than give a honest negative response. The respondent of A-security additionally gave an example that it is not part of the Tanzanian culture to give directly a negative response, even with a simple No. Foreigners often misinterpret some responses resulting in misunderstandings.

Religion plays a strong part in Tanzania as there are about 30 per cent Christians, 35 per cent Muslims and 35 per cent other religions, including the tribal religions (CIA 2011). None of the respondents brought up religion as a source of conflict in the country or workplace. However, it is important to be aware of some religious events, for example the Ramadan, which is the Muslims fasting month. According to the respondent of Ngo A, it is essential to show respect for the local culture and religion and understanding the basic religions, dressing codes, especially for women. According to the respondent of Tourism, however, Tanzania has westernized and dressing codes, especially for foreigners are quite free in most places.

There are also many other cultural issues the respondents had run into. First of all, the respondents of Ngo B and Development noted that a local employee expects to be supported during a period of personal crisis (e.g. a death of someone close). The respondent of Ngo B added that it is common that at some point of life a man or a woman returns to the countryside to take care of their elderly parents until they die. Another issue that the respondent of Ngo B has found challenging is the understanding and dealing with the level of poverty people are facing every day. Furthermore, the respondent of Ngo A noted a respect for older people and said that a young manager or expert is not respected as much as an older worker.

Understanding the culture is a long process, but Tanzanian people are open and forgiving. Understanding another culture starts with understanding your own culture, showing respect and interacting with the local people.

4.4.4 Market and investment opportunities in Tanzania

According to Fincorona and my own experiences Tanzania offers investment and market opportunities in various sectors. The respondents of seven different Finnish organizations and five different Tanzanian organizations were asked to identify market and investment opportunities in Tanzania. Many respondents stated that they are basing their answers on assumptions and on their understanding about Tanzania's market and investment environment.

To start with, telecommunications (mobile and internet) was seen to have investment opportunities by the respondents of Ngo A, Ngo C, Development, Energy A and Cosmetics. The telecommunication industry is the most rapidly growing industry in Tanzania. There are many Finnish high-tech companies that have solutions for the growing telecommunication industry.

Secondly, forestry machines and knowhow is something that Finland has been pioneering for decades in various projects all around the world. The respondents of Ngo A, Ngo C and Development identified a need for forestry projects in Tanzania. Supplying high-quality machines, expertise in combination with development projects is something that Finland has gained much experience from and there is a clear need in Tanzania for these kinds of projects.

Lastly, the following sectors were also mentioned: mining and heavy machinery (Ngo A), IT products and expertise (Ngo A, Insurance), environmental technology, namely dealing with hazardous waste (Ngo B), energy technology (Energy A, B-Security), infrastructure development and small-scale businesses to target the growing middle class (Ngo C), agriculture (A-Security), security expertise and used equipments (Insurance) and furniture (Cosmetics).

4.4.5 Finnish companies in Tanzania

The respondents were asked whether Finnish NGO's and companies have already found their way into Tanzania. This question divided the opinions of the respondents. To start with, the respondents of Tourism, Ngo A, Ngo B, MVC and Insurance saw that many Finnish companies and NGO's have found their way into Tanzania. The

respondents of Ngo A and Ngo B added that there have been a lot of church-work and development projects in both bi-lateral and multi-lateral levels. They also mentioned some Finnish companies that are operating in Tanzania.

Secondly, the respondents of Harbor, Development and Energy (B) noted that many NGO's doing church-work and development projects have found their way into Tanzania, but rather a few profit-making businesses.

Furthermore, the respondents of Energy (A), Ngo C, Cosmetics, A-Security and B-Security saw that as a whole not many Finnish companies have found their ways into Tanzania due to various reasons. Respondent A from Energy mentioned the Finnish-Tanzania investment seminar in October 2010, but saw that many Finnish companies are not encouraged enough to expand to countries like Tanzania. He also mentioned that companies such as Valmet, Kone and Orion have operated in Tanzania in the past but most of them have left the markets for one reason or the other. One reason has been the privatization of state-owned companies and changes in their management. Another reason has been increased competition, especially from Asia.

Obstacles for Finnish companies in expanding to Tanzania

The first reason seems to be, the lack of knowledge about market and investment opportunities (Ngo A, Ngo C, Energy A&B, Harbor, Cosmetics, Insurance, A-Security, B-Security). The respondent of Insurance saw that the lack of information is both ways; Finnish companies are not aware about the market potential in Tanzania and Tanzanian companies do not know what Finnish companies have to offer. The respondent of A-Security added that as a result of poor marketing it is difficult to get information about Finnish companies as many of their Websites are only available in Finnish and communication with them is rather slow. Having wrong perceptions and seeing Tanzania only as a cradle of poverty is another preventing factor adds the respondents of Ngo A, Ngo C, Energy A and Harbor.

Secondly, the respondents of Development, Ngo A, Cosmetics and A-Security saw that many Finnish companies see Tanzania as a too risky country to invest in. The respondent of Development added that Tanzania is relatively expensive country to invest and through scanning Finnish companies often find better investment opportunities than Tanzania.

The third reason is the lack of encouragement from the Finnish Government and its various financing bodies and from the Tanzanian Government and Investment Centers (Energy A, Ngo C). The respondent of Ngo C saw that the Tanzanian Investment Centre is not doing enough to support foreign companies entering Tanzania compared with the Investment Centers in Ethiopia and Rwanda, where the entering company is assisted with all the registering processes and procedures.

Furthermore, the respondent of Harbor brought up the lack of entrepreneurship in Finland as a reason for not having that many Finnish companies in Tanzania. If there would be more SME's in the field of international business, surely there would be many market and investment opportunities available.

In addition, the respondents of Cosmetics, Insurance, A-Security and B-Security saw that too highly priced products cannot compete with the cheap Asian alternatives. In a market where price matters over quality, Finnish companies are not seen very competitive.

Lastly, the respondent of Ngo B brought up the ethical aspect in doing business in a developing country. It is not recommended to operate such a business that exploits people and the natural resources. The respondent of Ngo C adds that most gold and diamond mines in Tanzania are owned by South African corporations who avoid taxes by bribing politicians and government officials. Basically, Tanzania is rich in natural resources but most of the valuables are taken abroad without the country getting much in return.

4.4.6 Summary of the results

Let's summarize the findings of the results presented earlier.

The most significant risk factors

Figure 3 is a merged proportion of each risk factor by the Finnish and Tanzanian respondents. All risk factors were analyzed using Excel and a bar chart was created according to the respondents ratings of the three most significant risks.

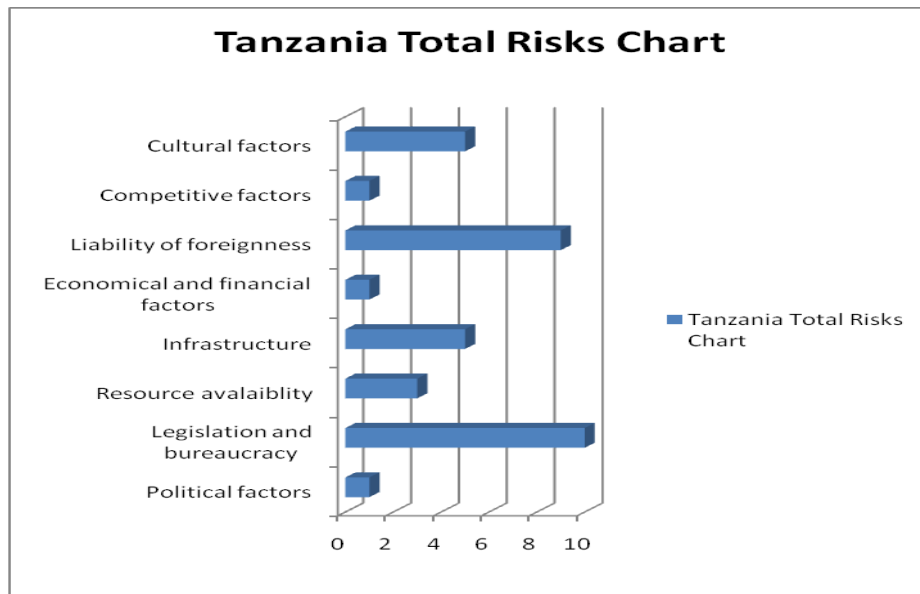


Figure 3. Total risks chart (Research Findings 2011)

First of all, the legislation and bureaucracy factor was considered as the most significant risk involved in Tanzania's operational environment. Issues such as unclear tax laws, poor implementation of those laws, everlasting court processes and corruption were brought up. The ability to deal with the legislative and bureaucracy environment defines the organizations survival rate in Tanzania. The ability to handle corruption is an important factor to consider for all organizations coming to Tanzania. In fact, the lack of understanding the legislative and bureaucratic environment can be rather costly and frustrating.

The second most significant risk is the liability of foreignness, resulting in difficulties in obtaining information, building reliable networks and communicating. Poor language skill can become an issue if the work involves dealing much with locals, especially in the countryside.

Poor infrastructure and cultural differences shared the third place as the most significant risk. To start with, infrastructure is another factor to be considered, namely analyzing the risks involved with electricity problems, water problems, traffic jams and transport risks.

Furthermore, understanding the local culture and the people is another step to succeeding in Tanzania. Being aware of the customs, respecting religions and finding a happy medium will strengthen the relationships with the local people.

In addition, the availability of skilled, motivated and reliable labor is an essential factor to be considered when expanding to Tanzania. The labor market in Tanzania is developing as the education is improving and offers well-educated people at a reasonably cheap price.

Lastly, political, financial and competitive risks in Tanzania were not seen as significant risk factors as the political environment is stable and the currency is relatively stable in the African scale. However, companies need to be aware of the competitive risks and understand that sometimes companies use the wrong methods of succeeding in international markets and that the protection of immaterial rights is often poor.

Market and investment opportunities in Tanzania

The interviews show potential market and investment opportunities in the booming telecommunication sector where the need for development could meet those Finnish companies offering high tech expertise and telecommunications solutions. Secondly, the growing forestry sector, especially in the Southern part of Tanzania could offer investment and development cooperation opportunities for Finnish companies and NGO's. Furthermore, the energy sector is a sector that requires much investment and development and those Finnish companies already offering energy solutions in the country will not run out of market and demand. Lastly, there are market and investment opportunities in various sectors including information technology, environment technology, construction, agriculture and security.

Finnish companies in Tanzania

Many respondents saw that numerous non-governmental and church-based organizations have found their way into Tanzania. This is due to the long missions and development cooperation history between Finland and Tanzania. Furthermore, several Finnish companies are currently operating in Tanzania which tells that it is possible for Finnish companies to find into Tanzanian markets and operate successfully. In the past there were actually many Finnish companies operating in Tanzania including Valmet, Orion and Kone but due to the privatization of many Tanzanian companies in the 1980s, the cooperation decreased significantly. According to the information obtained from the Finnish Embassy of Tanzania in 2010 there are seven companies

and one NGO that have given their information to the Embassy. There are also other Finnish companies and NGO's that are operating in Tanzania but have not given permission to the Embassy to give their information to third parties. Overall, there are not that many Finnish companies operating in Tanzania considering the potential and the presence of many other European companies.

The main reason that stops Finnish companies expanding to Tanzania is lack of knowledge about the market and investment opportunities in the country. The lack of information is both ways as Tanzanian's cannot find information about Finnish companies if their Websites are only in Finnish.

The second reason is fear of risks and relatively high cost of investment in a worldwide comparison. This is why many Finnish companies are looking towards China and other Asian countries as they are seen more stable and less risky targets for investments.

Furthermore, there is a lack of encouragement from the Finnish Government and its various financing bodies and from the Tanzanian Government and Investment Centers. Finnish companies are simply not motivated enough to expand to Tanzania.

In addition, the lack of entrepreneurship in Finland reflects to the international markets and the only solution is to encourage new entrepreneurs, especially those who are targeting international markets.

Too highly priced products can be seen as another reason that prevents Finnish companies entering the Tanzanian markets. Finnish companies can never compete with the Chinese in terms of pricing and in the markets where price matters over quality Finnish companies are not just competitive enough.

Lastly, doing business in a developing country often raises the ethics of the business, thus it is an issue to be aware of. Avoiding the exploitation of the people and the resources and using a win-win approach makes a company ethically sustainable.

5 DISCUSSION

Chapter five concludes the learning outcome from literature in chapter 2, country and industry analysis in chapter 3 and the research methodology and findings in chapter 4. Furthermore, this chapter makes analysis of the whole thesis process. Lastly, this chapter presents the conclusions of the study, suggests who can benefit and use the data gathered in this thesis and finally makes a suggestion on future studies.

5.1 Research summary

Before analyzing the research questions it is vital to understand the process of internationalization and operational environment analysis. Internationalization is not possible unless a firm has secured and stabilized its operations in the home country, unless starting a business in a foreign country. The essence of scanning, operational environment analysis, market research and business plan implementation should be understood before making a market entry. Understanding the risks and opportunities involved is also vital if a company or an NGO wants to succeed in a foreign environment. Information can be obtained from Finnish embassies, other Finns that have already operated in the country in question and from consulting companies such as Fincorona and Finpro, which have information and contacts in many countries. Networking, especially with other companies who are in the process of expanding to the same country is advisable.

The first research question was to analyze market and investment opportunities in Tanzania. Firstly, Tanzania and its four chosen industry sectors were introduced to see market and investment opportunities in mining, renewable energy, telecom and constructions sectors. The analyses show that especially telecommunications and renewable energy sectors are the ones that Finnish companies could find significant market and investment possibilities. The needs for developing Tanzania's internet and mobile network infrastructure and renewable energy technology in terms of solar and wind power are good examples of the demand matching Finland's expertise and technology in these sectors. The growing mining and construction sectors additionally offer market and investment opportunities for Finnish companies. There is a clear need for quality machines and mining tools (drills, bits, rods, underground ventilations

systems, vent tubing etc). Finnish construction companies could also find attractive tenders in house and road infrastructure projects. (Fincorona 2010.)

Secondly, both interviews found out what kind of market and investment opportunities the respondents saw in Tanzania. The research additionally shows promising market and investment opportunities in the booming telecommunication sector as well as the growing forestry, energy, IT, construction, agriculture and security sectors. As a whole, countries like Tanzania offer potential market and investment opportunities for Finnish companies. With a competitive price and quality products Finnish companies could find large markets with a surprisingly large purchasing power. In the end, it is up to Finnish companies and Government to decide whether Finland wants to fill the needs and the expectations in the growing markets such as Tanzania- or let the competitors win the markets first.

The second research question dealt with analyzing Tanzania's operational environment. The operational environment was analyzed first by a PESTEL analysis, followed by a country analysis and industry analysis and finally the actual operational environment analysis that was analyzed on the basis of the Finnish organizations experiences in Tanzania combined with Tanzanian respondents risk and opportunity analysis.

The research indicated legislation and bureaucracy factors to be the most significant risk involved in Tanzania's operational environment. Tanzania uses a common law system based on the English Common Law system emphasizing tradition and interpretation by the courts (Hauser Global Law School Program 2006). The interviews raised issues such as unclear tax laws, poor implementation of those laws, everlasting court processes and corruption. It is therefore recommendable to seek guidance from those Finnish companies that have operated in Tanzania and consulting firms such as Fincorona and Finpro that can assist in making an operational environment analysis, market research and business implementation plans.

The second most significant risk according to the research is the liability of foreignness, resulting in difficulties in obtaining information, building reliable networks and communicating. Companies can protect against the liability of foreignness risk by gaining valuable experience from a country similar to home

country, use experienced intermediaries to handle the operations, operating with the commitment of viewer resources abroad and starting the internationalization from one country instead of many countries in the same time (Daniels et al 2007,424).The respondents added that collaborating with other Finnish and local companies might help to build strong networks that will help the organization to successfully operate in Tanzania.

Furthermore, poor infrastructure and cultural differences shared the third place as the most significant risk. Infrastructure is an essential factor to be considered, namely analyzing the risks involved with electricity distribution problems, water problems, traffic jams and transport risks is crucial. Evaluating the need for backup power and understanding the best means of transporting are the key processes in preparing against infrastructure risks.

Further, cultural risk is a risk that should not be underestimated. Tanzanian culture is actually a mixture of Bantu, Arab and Western cultures. Swahili is the most dominant language in Tanzania, even though English is spoken by the youth as well as in the offices and agencies. (Maps of the World 2009.) While doing business in Tanzania, it helps to know at least some Swahili or have an interpreter. In comparison with Hofstede's ranking countries Tanzania is a country of large power distance, a weak certainty of avoidance, and a strong collective and a feminine feature culture with a stronger short-term orientation compared to long-term orientation. The interviews raised issues such as the in-directness in Tanzania culture, the poor ability to give and receive feedback, the time concept and religion. Understanding the local culture and the people is another step to succeeding in Tanzania.

In addition, the availability of skilled, motivated and reliable labor is an essential factor to be considered when expanding to Tanzania. The labor market in Tanzania is developing as the education is improving and offers well-educated people at a reasonably cheap price. Training new workers is a good investment and one way to obtain skilled labor.

Lastly, the significance of political, financial and competitive risks in Tanzania is moderate as the political environment is stable and the currency is relatively stable in the African scale. Tanzania is a multiparty democracy and has been ruled by the

Revolution Party since the independence and the union with Zanzibar. Jakaya Kikwete has been president since his election in 2005 and is now serving his second term after winning the elections in October 2010. (BBC 2011.) The political environment, however, is starting to change and the threshold for demonstrations is much lower than before. The economic environment is also stable as Tanzania uses a mixed economy, a combination of free market economy and a state controlled economy. The Tanzanian Shilling is used as a trading currency, but often prices are indicated in US Dollars. The Tanzanian Shilling has been a relatively stable currency compared with many other world currencies. In the competitive environment companies need to be aware of the competitive risk and understand that sometimes companies use the wrong means of succeeding in international markets. For Finnish companies using the wrong means can be destructive as Finland is committed following international laws and fighting corruption. It is also important to be aware of the fact that immaterial rights on technological innovations do not always prevail on international markets as all countries have their own legal system and a way to implement international laws. New companies in Tanzania should learn from Nokia's experiences and remember that the process of follow-up is as long as the company has operations in the target country.

5.2 Analyzing the thesis process

As a whole, the thesis process proceeded as planned and there were no major problems. Despite the change of focus in the thesis from Sub-Saharan Africa analysis to a country analysis and from researching factors preventing internationalization to analyzing Tanzania as a future market for Finnish companies, the research questions and Fincorona's interests were met. The lack of academic theory was another limiting factor that affected the thesis process in a way that I had to approach the topic by internationalization, target market and operational environment analysis. The qualitative methodology that was used provided with sufficient amount of data and the use of semi-structured interviews provided with the best possible results. The reception for the interview requests was very good and the Finnish respondents were willing to share their experiences in order to help new organizations expand into Tanzania. Further, the local respondents were happy to share their thoughts about Finnish companies, the operational environment and the market and investment opportunities.

5.3 Reliability and validity

In this thesis the reliability and validity have been taken into account already when choosing the references. The secondary data for this research was obtained from published books, articles, other academic researches and online sources. Using several sources in the same time assures the validity of the research. However, due to the lack of academic theory about Tanzania and its industry sectors various internet sources were used. The best possible online sources that were also backed up by other online sources were chosen. The primary data in this thesis was obtained by conducting two qualitative researches in the form of semi-structured interviews. The validity of the qualitative research was satisfactory with both the aspect of reliability and validity.

The structure of the interviews and the research questions worked well with the Tanzanian respondents, but with the Finnish respondents the questions were adjusted several times. As a whole, the questions were understood reasonably well and the themes that aroused support the frame of reference. However, the sample is too small to make any conclusions just based on the interviews. It must be additionally noted that the limiting time factor deteriorated the validity and reliability of the research in a way that it was not possible to interview the management of the Tanzanian companies and in two cases the respondents' did not work anymore for the companies they represented. On the other hand, in my opinion, the results would not have been different if they had still been working in the company. The question is that they do not officially represent their companies, nor do the other respondents who spoke based on their own personal experiences, having worked in a company in Tanzania. After considering and consulting the school with this issue it was decided to continue as planned as the removal of two respondents would have altered the results more than having the 'wrong' persons interviewed. Nevertheless, the study gives relevant information about the risks and opportunities, market and investment potential and reasons why many Finnish companies have not found to Tanzania. For future studies I suggest to reserve plenty of time for planning the research questions, contacting the respondents and conducting the actual research.

5.4 Suggestions for future research

This current study evaluates the market and investment potential in Tanzania from various sectors and explores the risks involved in Tanzania's operational environment. I do not see a need in conducting a similar kind of study about Tanzania as the sample size for the Finnish companies is not going to increase significantly. Future studies about Tanzania should be focused on a particular industry sector as the risks and the business opportunities often depend on the industry sector. Furthermore, conducting a case study of a company that has already been operating in Tanzania is another possibility. In addition, similar studies could be done about other countries as all countries and their operational environment pose different levels and different types of risks.

Final remarks

To conclude, in my opinion, the thesis met its objectives and answered the research questions. The primary researches were successful and useful qualitative data was gathered to support the theory presented in this thesis. Hopefully, this thesis will encourage and support those Finnish and other international organizations that are planning to expand to Tanzania or a similar country.

Lastly, theory and researches about the African markets are needed to create awareness about the huge market and investment opportunities in many African countries not forgetting about evaluating the risks involved. The Africa Business Magazine by Fincorona is believed to additionally support Finnish companies interested in the African markets. The Finnish Department of Trade should continue to encourage and facilitate the entry of new Finnish companies into Tanzania by cooperating with the Tanzania Investment Centre, facilitating companies such as Finpro and Fincorona that provide information about the African markets and finally encourage entrepreneurship in Finland, which in the long-term will reflect to higher global competitiveness.

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APPENDIX 1: INTERVIEW QUESTIONS FOR TANZANIAN COMPANIES

1. Name of your company
2. Corporate form
3. Number of employees
4. Your title
5. Turnover
6. Field of operation
7. Please list all Finnish companies that come to your mind
8. If you have dealt with Finnish companies, what is your impression of them?
9. Which kind of market and investment opportunities Finnish companies could have in Tanzania?
10. a) In your opinion have Finnish companies found the Tanzanian markets?
YES or NO?
b) If not, what could be the reasons?
11. a) Please list the typical risks an international company could face in Tanzanian markets?
b) Choose three most significant risks from the following list!

Potential risk factors:

- 1) Political Stability and Security
- 2) Legislation and bureaucracy (Taxation, tariffs, corruption)
- 3) Resource availability (Labor and raw material)
- 4) Infrastructure (Roads, electricity, water, internet etc)
- 5) Economical and financial factors (Currency stability, transfers, banking)
- 6) Liability of foreignness (Language barrier, risk of being cheated, poor information)
- 7) Competitive factors
- 8) Cultural factors

APPENDIX 2: INTERVIEW QUESTIONS FOR FINNISH COMPANIES

BASIC QUESTIONS

1. Name of your company
2. Corporate form
3. Number of employees
4. Your title
5. Field of operation
6. Briefly describe your operations in Tanzania
7. How long have you operated in Tanzania (Both you and the company)?
8. What made you choose to come to Tanzania (Both you and the company)?

OPERATIONAL ENVIRONMENT QUESTION

9. Based on your experiences briefly elaborate the following factors in Tanzania. Explore the opportunities and risks related!
 - a) Political stability and security factors (Including tax, tariffs etc).
 - b) Legislation and bureaucracy factors (corruption etc).
 - c) Resource availability (Including labor and raw materials).
 - d) Infrastructure (transport, basic commodities etc)
 - e) Economical financial factors (including transactions, transfers, currency fluctuations etc).
 - f) Liability of foreignness (level of information, level of communication and networks).
 - g) Competitive factors (tough competition, counterfeit products etc).
 - h) Cultural factors. What cultural differences did you run into?

Name the three most significant risks related to Tanzania's operational environment?

FINLAND-TANZANIA QUESTIONS

10. What kind of market and investment opportunities you see in Tanzania for Finnish companies?
11. In your opinion have Finnish companies/organizations found their way into Tanzania? Please justify your answer.

12. What would be your advice to the other businesses/organizations wanting to expand to Tanzania?

THANK YOU FOR YOUR ANSWERS!