CHINESE FOREIGN DIRECT INVESTMENTS ENTRY STRATEGIES AND FIRM PERFORMANCE

RICHARD GESIMBA NYAKUNDI

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DECLARATION

I declare that this project is my original work and has not been presented for examination in any other University or college.

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RICHARD GESIMBA NYAKUNDI

D61/77229/2015

This project has been submitted for examination with my authority as University supervisor.

…………………………………………….

VICTOR M. NDAMBUKI

LECTURER,

SCHOOL OF BUSINESS.

DEDICATION

This study is dedicated to My Family

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I am sincerely indebted to my supervisor Mr. Victor Ndambuki for his invaluable advice during this study. Without his input this study would not be. To my class of MBA a big thank you for your support, moral and otherwise. I am also deeply grateful to the Department of Business Administration for the administrative assistance provided throughout this study.

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ABSTRACT

The study sought to answer the following research question: What are the entry strategies adopted by Chinese FDI to enter Kenyan Economy and their influence on firm performance? The research objectives were to determine the entry strategies used by Chinese FDI to enter the Kenyan economy and to determine the extent to which Chinese FDI strategies affect firm performance. A case study design was used since all the MNCs involved were from the same country that is China. Interview guide was used for data collection. The respondents were required, based on the interview guide, to indicate the review frequency of entry strategies their organizations had deployed, and majority of the respondents stated that review of entry strategies is normally predicated upon environmental factors at a point in time, and the respondents noted that factors which influence review of entry strategies included political , legal and cultural environment, and that it played an important part in identification of opportunities inherent in the new market as well as the challenges the organization is most likely to encounter in the short and long run. The respondents also noted the level of competition in the target market as some of the factors influencing their decision to review entry strategies, and terrorist activities as well. Changes in the legal environment was also a concern that the respondents noted had a significant influence on whether to review entry strategies. Respondents also indicated that venturing into the foreign market like Kenya was motivated by the need to survive competition at the parent home of the company and to expand market size of the organization, to increase the sales and profits of the organization, and to moderate cost of doing business at home. This indicates that firm performance was influenced by the entry strategy adopted by an organization. The study recommends that policy development needs to take into account the structure of entry strategies. And that policies need to be designed in a way that accommodates conveniences of licensing, foreign direct investment, management contract, exporting, joint venture, assembly option, manufacturing, strategic alliance, turnkey operations and acquisitions as entry strategies.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

In a world of intense competition, innovative firms have an opportunity to redefine competitive rules to their own advantage. One of the ways through which this can happen is by entering new economies. Entering a new economy can be risky since firms cannot be certain on the outcome, but it may also be dangerous for a firm to stay away from a new economy (Valerie and Bertrand, 2005). For a firm to penetrate into new markets it needs to arm itself with specific entry strategies that will ensure it grows in the area. This becomes even more important if the target economy is a foreign one with companies that are offering the same services (Kay, 2003). A foreign economy is termed as one that is in a different international geographical region from the country of the parent company. Foreign economy can be classified depending on countries, regions and continents. When a firm establishes operations outside its home country, the new economy can be termed as a foreign economy (Rugman and Verbeke, 2004).

The study will be guided by various theories such as institutional theory, absolute advantage theory and new trade theory. Institutional theory typically focuses on the pressures exerted by external institutions on the strategies of firms. External institutions may consist of regulatory structures, agencies, laws, courts, professions, interest groups and public opinion (Oliver, 2001). To build legitimacy, organizations must comply with formal and informal rules, set forth by external institutions in the locations where they operate (Meyer and Rowan, 2009). In absolute advantage theory, Smith argued that it is

impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import (Guillory, 2005). New Trade Theory tries to explain empirical elements of trade that comparative advantage-based models above have difficulty with. These include the fact that most trade is between countries with similar factor endowment and productivity levels, and the large amount of multinational production (FDI) that exists (Shiozawa, 2007).

Companies enter international competitions because of different motives such as gaining global reputation, assurance of long term growth, increase of profitability, reaping the economy of scale and for other reasons such as saturation of internal market, intensity of competition in internal market and pressure of governmental rules and regulations. In Kenya, China Foreign Direct Investment (FDI) has risen due to the liberalization of the economy. It has mainly concentrated in the investment sector. Most of China FDI in Kenya are export oriented and market seeking. The most important FDI determinants for the Chinese companies are market size in Kenya as well as within the region, political and economic stability in both Kenya and its neighbors and bilateral trade agreements between Kenya and other countries.

1.1.1 Concept of International Business

International business refers to the performance of trade and investment activities by firms across national borders. Firms organize, source, manufacture, market and conduct other value adding activities on an international scale. They seek foreign customers and engage in collaborative relationships with foreign business partners. While International business is primarily carried out by individual firms, governments and international

agencies also engage in international business transactions. The growth of international business activity coincides with the broader phenomenon of globalization of markets which refers to the ongoing economic integration and growing interdependency of countries worldwide. Globalization both compels and facilitates companies to pursue business activities and international expansion (Cavusgil, 2008)

1.1.2 Foreign Market Entry Strategies

A market entry strategy is the planned method of delivering of goods and services to a target market and distributing them (Hollensen, 2001). Developing a market entry strategy is important, and involves an in depth analysis of potential competitors and possible customers. A number of factors are of importance when settling for the entry strategy which include; competition, trade barriers that exist, price localization and subsidies. Entry strategies mainly focus on two aspects; mode of entry and timing of entry. Douglas and Craig (2005) stated that entry strategy is a "comprehensive plan that will guide a company's business operations over a future period long enough to achieve sustainable growth in world markets."

Douglas and Craig (2005) divided a firm's gradual involvement in international markets into three phases: initial foreign market entry; local or national market expansion and global rationalization. Prior to the firm's entry into international markets, the domestic market is the focal point of strategy development, and defines the boundaries of operations. A variety of triggers may drive a company to enter international market. The key decisions at initial entry include: the choice of countries to enter, the timing of entry and lastly, how operations are to be conducted in these countries (entry mode). These

decisions are crucial, because they entail commitments to locations and to other companies that are difficult to change and set the pattern for future market development. Once the firm establishes the operations in the foreign market, attention shifts to developing local market potential triggered by some factors.

1.1.3. Firm Performance

Performance is a broad concept with many manifestations, made even more complex by operations in multiple markets with varying degrees of global integration. Performance Measures are quantitative or qualitative ways to characterize and define performance. They provide a tool for organizations to manage progress towards achieving predetermined goals, defining key indicators of organizational performance and customer satisfaction. Performance Measurement is the process of assessing the progress made (actual) towards achieving the predetermined performance goals (baseline). Traditional, financially based performance measurement approaches have a number of serious drawbacks (Kaplan & Norton, 2012). These include the element of outcome focus. Established financial indicators such as turnover and profit before tax are outcome indicators. Four useful measures of firm profitability are the rate of return on firm assets (ROA), the rate of return on firm equity (ROE), operating profit margin and net firm income.

The ROA measures the return to all firm assets and is often used as an overall index of profitability, and the higher the value, the more profitable the firm business. The ROE measures the rate of return on the owner's equity employed in the firm business. It is useful to consider the ROE in relation to ROA to determine if the firm is making a

profitable return on their borrowed money. The operating profit margin measures the returns to capital per dollar of gross firm revenue. It focuses on the per unit produced component of earning profit and the asset turnover ratio (discussed below) focuses on the volume of production component of earning a profit (Crane, 2011). Net firm income comes directly off of the income statement and is calculated by matching firm revenues with the expenses incurred to create those revenues, plus the gain or loss on the sale of firm capital assets. Like working capital, net firm income is an absolute dollar amount and not a ratio, thus comparisons to other firms is difficult because of firm size differences (Gilbert and Wheelock, 2009).

1.1.4Multinational Corporations (MNCs)

A multinational corporation (MNC) also known as Multinational enterprise (MNE) is an enterprise that engages in foreign direct investment (FDI) and owns or controls value adding activities in more than one country (Dunning 2007) .The rise and growth of Multi-National Corporations (MNC) is traceable to the historical development of International Business, where international business was expanding their trade capabilities from one location to other areas. The expansions of trade lead to the need for business organizations to coordinate activities. The MNCs have been around for a long time. Multinational corporations have grown to play a centrally important role in the international economy. MNCs are, in many respects, the driving force behind the deepening integration of the global economy. Firms participating in international business must formulate international strategies that would enable the firm to compete in different markets. The strategy enables the firms to know the businesses to operate on,

how to compete in the markets that they have chosen to enter and how to manage its functions of finance, marketing, operations, human resources and research and development.

1.1.5 Chinese Multinational Corporations in Kenya

Chinese companies have expanded their economic footprint in Kenya since President Kibaki came to power in January 2003, riding on the government's deliberate decision to look east for new investments and aid. Kenya Investment Authority (KIA) says at least 16 Chinese companies have set up shop in Nairobi in the past two years targeting diverse markets such as footwear, consumer electronics and beverages with an initial investment cost of over Sh7 billion. Chinese companies are coming to Kenya with an aim of penetrating the larger East African market where demand for goods and services is growing. The removal of barriers to movement of people, goods, and services in the region is attracting more foreign investments, with Kenya gaining from its strategic position as an infrastructure, transport, and financial services hub.

1.2 Research Problem

Strategy has been described as the game plan management has for positioning the company in its market arena, competing successfully, pleasing customers and achieving good business performance. A company's ultimate success or failure is influenced by how well the management team charts the company's direction, develops effective strategic moves and business approaches and pursues what needs to be done internally to produce good day-in, day-out strategy execution and operating excellence (Thompson & Strickland, 2008). The choice for a particular entry mode is a critical determinant in the

successful running of a foreign operation. However, it may seem that the use of particular strategies by international firms may yield higher growth and performance than others (Lages and Montgomery, 2012).

Kenya has experienced a high influx of Chinese foreign direct investment multinationals in the country. This sector has grown over time both in terms of its contribution to the country's Gross Domestic Product and employment. The performance of these Chinese FDIs in Kenya has been on the rise due to the regulation of laws governing their entry. Although their influx has been high, the FDIs have faced stiff and increasing competition from fellow multinational companies and other domestic firms. They have faced challenges like cultural differences, language barriers, little brand awareness, political instability, currency fluctuations and instability, local opposition and great set up costs. This has made them to device appropriate entry strategies that would help them address these problems.

Several research studies have been conducted on the market entry strategies. Mwangi (2012) carried out a study on the entry strategies used by atlas Copco eastern Africa Ltd to enter into the Eastern Africa. Mugambi (2011) conducted a study on foreign market entry strategies adopted by firms in the Export Processing zones, Ndwiga (2012) researched on the foreign market strategies used by the British Multinationals in Kenya. Cheptegei (2012) also did a study on foreign market entry strategies used by multinationals in Kenya: A case study of Coca Cola in Kenya.

However, none of the previous studies to the best knowledge of the researcher has dealt exclusively on the entry strategies adopted by the Chinese FDI to enter Kenya economy

and their effect on performance. Hence there exists a knowledge gap that warrants this study. The study hence sought to answer the following research question. What are the entry strategies adopted by Chinese FDI to enter Kenyan Economy and their influence on Firm Performance?

1.3 Research Objectives

i. To determine the entry strategies used by Chinese FDI to enter the Kenyan economy
ii. To determine the extent to which Chinese FDI strategies affect firm performance

1.4 Value of the study

Study will be of value to Chinese and other companies trying to enter the Kenyan economy. As well as local investment companies as they will both have wealth of information on entry strategies being used by China foreign direct investment companies to enter the Kenyan economy. The other industry players will also benefit from this information and create harmony instead of rivalry in the investment industry in the event they would like to expand into foreign economy, they will access information on the factors that affect their entry strategies that China FDI have experienced. Various companies will be in a better position to make better choices having understood the Kenyan economy.

This research will also be of value to the government since it will provide guidelines for designing policies to enhance trade investment and policy for decision making that could affect the trading sector. The study will also give valuable information on what China

FDI will have experienced in entering the Kenyan Economy. Scholars and Academicians will use the outcome of this research to fill the gap as no studies have been undertaken on entry strategies used by China FDI to enter the Kenya. This research will also benefit the existing knowledge in the field of Strategic Management in precision the study of entry strategies will also act as a catalyst for further research on entry strategies.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter reviews the various theoretical concepts are applicable in the study. Specifically, the study will review the concept of entry strategies and organizational performance. The empirical review addressed the various studies that have been done on the area.

2.2. Theoretical Framework

The study will be anchored on various theories; these are institutional Theory, Absolute advantage Theory and New trade Theory.

2.2.1. Institutional Theory

Institutional theory typically focuses on the pressures exerted by external institutions on the strategies of firms. External institutions may consist of regulatory structures, agencies, laws, courts, professions, interest groups and public opinion (Oliver, 2001). To build legitimacy, organizations must comply with formal and informal rules, norms, behaviors and ceremonies set forth by external institutions in the locations where they operate (Meyer and Rowan, 2009). Hence, institutional theorists emphasizing the value of conformity to the external environment suggest that firms need to be similar, or isomorphic, to their environment and surrounding agents to survive and prosper (DiMaggio and Powell, 2003). Isomorphism through mimicry is a strategic choice

whereby one firm enhances its legitimacy in a population by resembling other incumbent firms facing the same set of environmental conditions.

2.2.2. Absolute Advantage Theory

The principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce more of a good product or service than competitors, using the same amount of resources (O'Sullivan &Sheffrin, 2003). Adam Smith first described the principle of absolute advantage in the context of international trade, using labor as the only input. Since absolute advantage is determined by a simple comparison of labor productivities, it is possible for a party to have no absolute advantage in anything; in that case, according to the theory, no trade will occur with the other party (Harrington, 2009). It can be contrasted with the concept of comparative advantage which refers to the ability to produce specific goods at a lower opportunity cost. The main concept of absolute advantage is generally attributed to Adam Smith for his 1776 publication An Inquiry into the Nature and Causes of the Wealth of Nations in which he countered mercantilist ideas (Marrewijk, 2007). Smith argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import and instead stated that all nations would gain simultaneously if they practiced free trade and specialized in accordance with their absolute advantage (Guillory, 2005). While there are possible gains from trade with absolute advantage, the gains may not be mutually beneficial. Comparative advantage focuses on the range of possible mutually beneficial exchanges.

2.2.3. New Trade Theory

New Trade Theory tries to explain empirical elements of trade that comparative advantage-based models above have difficulty with. These include the fact that most trade is between countries with similar factor endowment and productivity levels, and the large amount of multinational production (FDI) that exists. New Trade theories are often based on assumptions such as monopolistic competition and increasing returns to scale. One result of these theories is the home-market effect, which asserts that, if an industry tends to cluster in one location because of returns to scale and if that industry faces high transportation costs, the industry will be located in the country with most of its demand, in order to minimize cost. Although new trade theory can explain the growing trend of trade volumes of intermediate goods, Krugman's explanation depends too much on the strict assumption that all firms are symmetrical, meaning that they all have the same production coefficients.

2.3. Entry Strategies

The foreign entry strategies for companies can be divided into exporting, contractual and investment entry modes. Grönroos (2009), however, mentions a fourth strategy of entry for services; the electronic strategy. To begin with, most manufacturing companies perform their initial internationalization through exporting modes (Bradley, 2005). Exporting is a low resource commitment entry mode and when the firm later on has gained knowledge and experience it may shift to a high resource commitment entry mode, such as foreign investment (Kwon and Konopa, 2002). Exports for manufactured goods can further be divided into direct and indirect export, where indirect export is

performed through selling to intermediaries, and direct export through selling directly to the foreign buyers (Brassington and Pettitt, 2000).

Contractual entry modes, on the other hand, are long term relationships between companies in different countries that involve transfer or technology or human skills, and include licensing, franchising, and other types of contracts. Contractual entry modes are used when the firm wants to avoid starting up completely new operations in the new market. For this reason, this is the least risky of the entry strategies for service firms (Grönroos, 2009). Licensing is avoiding the risk of product and/or market development by using already established firms in the process. The licensee is, via the licenser, allowed to manufacture the product, use patents, and particular processes and/or use existing trademarks in a specific market in exchange for a fee or royalty. (Brassington and Pettitt, 2000) The main advantage of licensing is the circumvention of import barriers.

In addition, licensing helps the firm to overcome the problem of high transportation costs that might occur in exporting. Licensing also implies lower political risk than the investment entry modes. The risk of creating a new competitor is also high, since the licensee can use the licensor's technology after the contract is finished (Root, 2004). Franchising is when an individual or an organisation in a country is granted the right to use the company name, trademark and technology. However, the franchisor also assists the franchisee in organisation, marketing, and general management under an arrangement that is intended to be permanent. The advantages of franchising are rapid expansion to new markets with low investment, standardised method of marketing with a distinctive

image, highly motivated franchisees, and low political risk. The disadvantages of franchising are mainly the same as for licensing. Further, licensing and franchising are suitable modes of entry when the company sells a service that cannot be exported. (Root, 2004)

Finally, the investment entry modes include international company ownership of manufacturing plants or other production units in the foreign country in the form of new establishments (which, according to Williams (2007), are also called greenfield sites), acquisitions, joint ventures, (Root, 2004) or mergers (Floyd, 2002). These modes have a considerable capability of impacting on the host economy. Williams (2007) also claims that arguments that are mounted in favour of foreign direct investments revolve around the notion that it will improve competitiveness, and through this increase employment and the welfare of the host nation. Through foreign investments, the foreign company can gain relatively more control of the market than through exporting, and it implies an expectation of a relatively higher rate of return (Kwon and Konopa, 2002). New establishments are when companies start up completely new operations in a new country (Root, 2004). It is preferred when the company has a technology incompatible with already existing firms on the foreign market or if the acquisition price of another company is too high (Grahn and Khoshnam, 2009). The largest problems with new establishments are the start-up costs and the associated risks (Andersson and Arvidsson, 2002). The advantages of acquisitions differ depending on how successful the selection of the acquired company is, and a poor selection can turn any advantage into a disadvantage (Root, 2004).

The first possible advantage with acquisitions is a faster start in exploiting the target market than if the investor would start up as a new establishment. The second is that acquisitions prove a shorter payback period by creating immediate income for the investor. Continually, other possible advantages are that the acquisition might provide a resource (usually managerial, or of a technical nature) that is scarce in the target country and not available on the open market, and that the firm might take over new product lines (Root, 2004). Lastly, a joint venture is when two companies share the ownership of a firm in order to complement assets and/or skills (Brassington and Pettitt, 2000). A joint venture occurs either when a foreign and a domestic firm together start up a completely new company within the new market, or through an acquisition or a partial ownership of an existing local company by the foreign firm (Root, 2004).

Investment through joint venture brings advantages such as risk diversification, capital requirements reductions and lower start-up-costs (Williams, 2007). It will also create growth opportunities for the local firm simultaneously as the international firm will gain much local know-how (Grönroos, 2009). Joint ventures normally facilitate a rapid market entry and fast return of the initial investment (Bradley, 2005). A joint venture also allows a company with limited human and financial resources to enter a new market, instead of creating expensive foreign subsidiaries. This, together with the fact that the managers in the local establishment have the knowledge of the host country environments facing the company, minimises the risk. Finally, the electronic entry mode means that a service firm extends its accessibility through the use of advanced electronic technology. The Internet presents ways to communicate offerings and to put them up for sale, and the ability to collect data on buying habits and patterns of its customer, and the possibility to

use network partners to arrange delivery and payment. However, the company still has to rely on, for example, postal and other delivery services for the strategy to work. This strategy might in some instances also work for manufactured goods as well (Grönroos, 2009).

2.4. Firm Performance

Highly competitive environments, globalization, ever-growing amounts of performance data and increasing pressure to do more with less have made it imperative for firms to be demand driven. It is no wonder that measuring, reporting and overall business performances are hot topics. Companies in every industry are seeking ways to get a clear, accurate view of operational performance. Essentially, they need an effective, reliable approach to connect operational performance to financial results (Rod Clarke, 2007). The performance of companies in the modern business operating environment can be judged using various parameters. The ultimate goal of a firm employing various competitive strategies is to gain an edge over its competitors hence improve performance.

Performance is judged using both financial and non-financial or behavioral parameters. Johnson & Scholes (2005) describe firm performance based on key success factors. Financial factors include state of the firm equipment or facilities, return on capital employed, production and operations costs, prices or rates of produce released to the market, volume of operations or sales i.e. market share, financial cash flow, technology, profitability, and research and development. Behavioural parameters include management style, human resources, product quality, service quality, customer care, firm’s image or

reputation, marketing effectiveness, technological status, location and processes or systems.

In the past firm performance was generally judged using financial parameters only. However, it has become increasingly evident that the human resources and management factors are key drivers and contribute greatly to overall financial performance. Public image and responsibility to the society have also increasingly become critical factors to overall firm performance. According to Eric M. Olson (2002) many managers nowadays adopt a balanced scorecard approach to measuring performance. This position is true for all industries and the most successful firms emphasize the measures and perspectives e.g. customer satisfaction index, internal business processes, innovation and profitability

2.5. Entry Strategies and Firm Performance

The choice of entry mode has become a crucial strategy decision for firms wishing to enter international economies, as it will have an important influence on their future business success (Peinado and Barber, 2009). Entry strategies affect business performance in the context of investment industries (Kirca, 2011). Choosing the right entry strategies is one of the key points in international business. These strategies have an effect on performance and duration of it through determining the method and allocating essential and sufficient resources (Ekeledo & Sivakumar, 2013). Entry mode performance is defined in terms of efficiency or profitability. Non-profit motives, such as resource and knowledge development or strategic moves against competitors, are assumed to be reflected in long term profit. Profitability depends on costs and revenues (Wilkinson and Nguyen, 2011).

Furthermore, some of the researches indicate that entry strategies affect export performance by determining the control level, risk level and company share in foreign economies and end up with the success or failure of the company (Kock et al., 2014). Previous studies have generally neglected the link between exporting and performance and survival. An exception is the study conducted by McDougall and Oviatt (2010)their longitudinal study of 62 new manufacturing firms in the USA engaged in the computer and communications industries revealed that ventures that had increased international sales, compared to those that had not, exhibited superior performance in terms of both relative market share and return on investment (ROI). However, their study was conducted over only a 2-year period and focused solely upon a relatively small sample of manufacturing firms. Westhead (2009), during his cross-sectional study of new firms in Great Britain, focused upon the performance of firms engaged in manufacturing and producer services activities. He found that exporting firms recorded significantly higher levels of absolute growth since the businesses had received their first orders than did non-exporting firms (Westhead et al, 2009).

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used in the collection of data pertinent in answering the research questions. It is divided into research design, population of the study, sampling design, data collection, and data analysis methods.

3.2 Research Design

The study used acase study of Chinese MNCs. This is because this method most captures the objectives of the study. According to Mugenda & Mugenda (2003) the purpose of a case study is to gain adeep understanding of phenomena. The case study derives subjects from MNCs domiciled in China and those that have their African or regional headquarters in Nairobi. According to Kenya Investment Authority, there are 16 Multinational companies with their headquarters in Nairobi (Appendix II).

3.3Data Collection

This study used primary data in order to answer the research questions and to make the required conclusions. Primary data is data that has not been collected from the source for any other prior purpose other than the particular study. Primary data was obtained through an interview guide that was so designed to meet the objectives of the study. The interview guide was administered to all managers in charge of operations in all the 16 Chinese multinational companies in Kenya who form the subjects of inclusion into this case study of Chinese MNCs.

3.4 Data Analysis

Data analysis is the whole process, which starts immediately after data collection and ends at the point of interpretation (Kothari, 2011). It involves examining what has been collected and making deductions and inferences Kombo and Tromp (2006). Data collected from questionnaires will be checked for completeness and accuracy, and then it will be coded. The coding scheme will be designed inductively on the basis of a representative sample of responses to questions. This study used content analysis whereby qualitative data extracted from interviews was analysed to determine the entry strategies and the extent to which the entry strategies affected firm performance.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, interpretation and discussions. The chapter includes the profile of respondents, the entry strategies that the firms used and thereafter the entry strategies and the impact on firm performance. The chapter concludes with a brief discussion of the findings.

4.2 General Information

This study focused on the Chinese multinational companies that have their African or regional headquarters in Nairobi. 16 Multinational companies were interviewed, and an interview guide administered to the managers in charge of operations in all the 16 Chinese multinational companies that were targeted in this study.

4.3 Entry Strategies

The respondents were asked to indicate the persons in the company who were involved in making decisions about expansion of entry strategies, and majority of the respondents indicated that entry strategies were decided upon at the board level while others indicated that it is undertaken at the executive level and usually involves discussion in which the participants are management level staff, and the decisions made at that level are then formulated into appropriate actionable programs that are implemented by lower cadre of employees in the organization.

The respondents were required, based on the interview guide, to indicate the review frequency of entry strategies their organizations had deployed, and majority of the respondents stated that review of entry strategies is normally predicated upon environmental factors at a point in time, and the respondents noted that factors which influence review of entry strategies included political , legal and cultural environment, and that it played an important part in identification of opportunities inherent in the new market as well as the challenges the organization is most likely to encounter in the short and long run.

The respondents also noted the level of competition in the target market as some of the factors influencing their decision to review entry strategies, and terrorist activities as well. Changes in the legal environment was also a concern that the respondents noted had a significant influence on whether to review entry strategies. Respondents also indicated that venturing into the foreign market like Kenya was motivated by the need to survive competition at the parent home of the company and to expand market size of the organization, to increase the sales and profits of the organization, and to moderate cost of doing business at home.

The suggestion of respondents was desired on the entry strategies a multinational organization can use to enter the Kenyan market, and the respondents mentioned a number of factors that an organization need to take into consideration, which included market size as well as its potential in terms of growth, the nature of a product's fit to the market demand, and customers buying power relative to the degree of competition in the

market. The suggestions presented by the respondents on entry strategies included exporting, licensing, establishment of a new operation or investment in production plant, and setting up of a subsidiary, contract manufacturing, alliances, acquisitions and joint ventures. Respondents also mentioned that the decision on particular entry strategy was also informed by the level of risk involved. Majority of the respondents, however, noted that joint venture was the most preferred entry strategy followed by exporting.

The respondents were also required to indicate the internationalization process of their organization, and majority indicated that the process first involved an assessment of the internal and external situation of the organization whereby attention is placed on factors such as resources available and nature of staff capacity in regard to the internal circumstances while in regard to the external environment factors that are of critical nature include market size and attractiveness, political and legal conditions, cultural and tariff barriers as well as competition. Respondents indicated that the process then includes evaluating suitability of entry strategies, which may include any of the following that were indicated; licensing, foreign direct investment, management contract, exporting, joint venture, assembly option, manufacturing, strategic alliance, turnkey operations and acquisitions.

When the respondents were asked whether presently they would still use the same entry strategies that they initially used and the factors behind their response, the majority of the respondents indicated that they would not, and based their response on several factors that included gained experiences, new market entrants, legal and political dynamics.

4.4 Entry Strategies and Firm Performance

The respondents were required to describe the competition in the Kenyan investment sector, and majority of the respondents stated that competition was a major challenge that included substitute products, pricing wars as well as product performance elements and customer perceptions of quality. Respondents also mentioned preferential treatment as a concern that they had regarding competition in the Kenyan investment sector. Respondents also indicated that the structure of competition was broadly based, and include local and foreign organizations had diverse entry strategies including licensing, foreign direct investment, management contract, exporting, joint venture, assembly option, manufacturing, strategic alliance, turnkey operations and acquisitions.

The respondents were further required to rate the performance their organization since its entry into the Kenyan market, and majority of the organizations reported making profits and overall judgement based on financial and non-financial terms on business performance justified continued operations in the present market for most of the organizations. Majority of the respondents also stated improved performance in the overall portfolio of the organization due to strategies pursued in the international market.

Respondents stated that entry strategies had an influence on business performance, and that selecting the right entry strategy was an important exercise to majority of the organizations, and furthermore the general view of the respondents was that resource allocation played an important part in deployment of efficient and profitable entry strategies.

4.5 Discussions

The findings of the study show that entry strategies deployed by the organizations included licensing, foreign direct investment, management contract, exporting, joint venture, assembly option, manufacturing, strategic alliance, turnkey operations and acquisitions, but the common entry strategies were joint ventures and export approaches. All the organizations also reported financial and non-financial benefits for investments that they had made in the international markets. A number of internal and external factors were identified as critical in decision making, and risks, which included political, legal and social in nature were identified, however these were not as significant as to prevent investment in the international markets by the organizations, or demotivate the executives from pursing their present strategies. Although the Kenyan market was viewed as highly competitive, it was nonetheless not yet saturated. An organization could still make a profit with licensing, foreign direct investment, management contract, exporting, joint venture, assembly option, manufacturing, strategic alliance, turnkey operations and acquisitions entry strategies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations, which in essence addresses the objective of the study, which was to determine the entry strategies adopted by Chinese FDI to enter Kenyan economy and their influence on Firm Performance.

5.2 Summary of Findings

The study found that decisions about expansion of entry strategies were mostly decided upon at the board level and the executive level usually involved discussion in which the participants are management level staff, and the decisions made at that level formulated into appropriate actionable programs and implemented by lower cadre of employees in the organization. The review frequency of entry strategies deployed was normally predicated upon environmental factors at a point in time, and factors which influenced review of entry strategies included political, legal and cultural environment, which played an important part in identification of opportunities inherent in new market entry.

The level of competition in the target market were some of the factors that influenced decisions to review entry strategies, and terrorist activities as well. Changes in the legal environment was also noted while venturing into the foreign market like Kenya was motivated by competition and the need to expand market size of organizations, to increase sales and profits, and to moderate cost of doing business.

The entry strategies a multinational organization can use to enter the Kenyan market suggested included exporting, licensing, establishment of a new operation or investment in production plant, and setting up of a subsidiary, contract manufacturing, alliances, acquisitions and joint ventures. And the decision on particular entry strategy was informed by the level of risk involved. Joint venture was the most preferred entry strategy followed by exporting.

Internationalization process largely involved an assessment of the internal and external situation of the organization, and attention was placed on factors such as resource availability and nature of staff capacity. The external environment factors that were important included market size and attractiveness, political and legal conditions, cultural and tariff barriers as well as competition. The entry strategies were also considered in terms of place and time, and several factors influenced entry strategies adopted, and that included gained experiences, new market entrants, legal and political dynamics.

The competition in the Kenyan investment sector was a major challenge to the organizations, among them, substitute products, pricing wars as well as product performance elements and customer perceptions of quality, preferential treatment was also a concern.

Performance of the organizations was reported to be generally good and profitable, and overall judgement based on financial and non-financial terms on business performance justified continued operations in the present market for most of the organizations.

Improved performance in the overall portfolio was subscribed to strategies pursued in the international market. The entry strategies had an influence on business performance, and that selecting the right entry strategy was an important exercise to majority of the organizations.

5.3 Conclusions

The study set out to determine the entry strategies used by Chinese FDI to enter the Kenyan economy and to determine the extent to which Chinese FDI strategies affect firm performance, and the findings indicate that among the entry strategies entry strategies that include licensing, foreign direct investment, management contract, exporting, joint venture, assembly option, manufacturing, strategic alliance, turnkey operations and acquisitions, the common entry strategies were joint ventures and export approaches. And majority of the organizations that had reported joint ventures were performing remarkable, both in financial and non-financial terms, compared to those that had reported the other entry strategies. This indicates that firm performance was influenced by the entry strategy adopted by an organization.

5.4 Recommendations

The study recommends that policy development needs to take into account the structure of entry strategies. And that policies need to be designed in a way that accommodates conveniences of licensing, foreign direct investment, management contract, exporting, joint venture, assembly option, manufacturing, strategic alliance, turnkey operations and acquisitions as entry strategies.

5.5 Limitations of the Study

This study encountered the following limitations they include, Lack of enough funds to move around frequently hindered my case study work. The research work was granted sponsorship by willing friends and family who helped in the financial commitments that were required to carry out a credible research. The targeted respondents especially the staff were busy to sacrifice their time to fill the questionnaires that was used to collect data. Due to the busy schedules of the respondents, the researcher left the questionnaire with them so that they can fill up the questions at their convenience. The time I was able to collect data was not enough since the time when the respondents were free is when I was to attend evening classes this is so because during the day they were busy with official meetings and attending to their clients and outsourcing for more business for the company. The researcher organized to meet with the respondents over the weekend to facilitate the data collection as we were not able to adequately have enough time during the week days.

5.6 Suggestion Further Studies

The study focused on Chinese foreign direct investments entry strategies and firm performance. That excludes companies in other countries, impact of Chinese foreign direct investments entry strategies are some of the similar studies that can be focused on. A research study can be formulated to carry out the challenge facing adoption of Chinese foreign direct investments entry strategies in Kenya. From the conclusions and the findings, the study ought to recommend an in-depth study to be carried out on the relationship between Chinese foreign direct investments entry strategies and firm performance in Kenya.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

RICHARD GESIMBA NYAKUNDI

P.O BOX

NAIROBI, KENYA

THE MANAGER

CHINESE FDI

NAIROBI, KENYA.

Dear Sir,

REF: REQUEST FOR USE OF INFROMATION

I am an MBA student at the University of Nairobi and in the partial fulfillment of the requirements of the degree; I wish to undertake a research study on the entry strategies adopted by Chinese FDI to enter Kenyan economy and their influence on Firm Performance.

The purpose of this letter is to request your permission to collect data through interviewing the managers of these companies. Your support and responses will be helpful in the study as I will be able to summarize, conclude the findings and help me come up with the right recommendations.

I take this opportunity to ensure that the data obtained will be kept highly confidential and will only be used for academic purposes. A copy of the final research report will be availed to you on request.

Your cooperation will be highly appreciated.

Yours Faithfully,

Richard Gesimba Nyakundi

APPENDIX II: INTERVIEW GUIDE

SECTION A: ENTRY STARTEGIES

1. Who in your company participates in the decision making involving expansion of entry strategies?
2. How often does your company review its entry strategies?
3. What suggestions do you have on the entry strategies that investment multinationals can use to enter the Kenyan Market?

4 Can you describe the internationalization process of your firm?

5 Would you still use the same strategies and methods today to go international that you did during the first time? Why or why not?

SECTION B: ENTRY STRATEGIES AND FIRM PERFORMANCE

6 How can you describe the competition in the Kenyan investment sector?

7 How do you rate the performance of your corporation since its entry?

8 What suggestions do you have on entry strategies companies can use to effectively enter the Kenyan economy and their impact on performance?

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APPENDIX III: LIST OF CHINESE MNC'S

1. Huawei
2. ZTE
3. Lenovo
4. Union Pay
5. Beiqi Foton
6. Chery Automobile
7. Sinopec
8. China National Offshore Oil Corporation (CNOOC Group)
9. China Wu Yi
10. China Road and Bridge Corporation
11. Sino Hydro Group
12. Great Wall Drilling Company
13. China Overseas Ltd
14. Jiangsu International Group
15. China Sichuan International Cooperation
16. Guangxi Hydroelectric Construction Bureau