CHALLENGES OF FOREIGN DIRECT INVESTMENT STRATEGY FOR A NEW MARKET: CASE OF TULLOW OIL COMPANY IN KENYA

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DECLARATION

This research project is my work and it has not been submitted in any university for an award of merit.

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Paskwelina Wanjiru Kimaru
D61/75134/2014

This research project has been submitted with my approval for as the university supervisor.

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DEDICATION

The research project is dedicated to my lovely husband and three beautiful daughters, for their unconditional love and understanding when I was out to undertake my studies.
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# ABBREVIATIONS AND ACRONYMS

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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FSA</td>
<td>Firm Specific Advantages</td>
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ABSTRACT

The environment that organisations operate is uncertain and this has forced firms to go outside their boundaries for fresh markets and to exploit untapped resources with the goal of expanding their businesses. The research objective for this study was determining the challenges of direct investment strategy for a new market using the case of Tullow Oil Company, Kenya. The study implemented a case study research design where primary data was collected with the help of an interview guide from four departmental heads at ToC who were exploration manager, operations manager, marketing manager and the human resource manager. Data was analyzed with the help of content analysis and the study found that the main impediments of direct investment strategy faced by ToC when trying to enter the Kenyan market were hidden costs from shipping of equipments, poor roads and infrastructure, poor network, rivalry from the host communities and political uncertainties. Some of the ways that ToC put in place to deal with these challenges were building good relations with the local community and the government, offering job opportunities and contracts to the local communities, CSR programmes and engaging the communities in oil contract agreements. The study recommends that ToC to continuously adopt direct investment as a strategy to enter new markets because this approach will enable the company to retain its control over its operations and reduce leakage of important information. This way the company will be able to maintain better relationships with its stakeholders and achieve its corporate goals. The major limitation for this study was that due to the busy schedules of the managers, their deputies were interviewed on the behalf. The assistant managers might not have the same experience as the managers on issues regarding the challenges of direct investment as a strategic approach for market entry because the managers are involved directly in these decisions. It would be more exciting if a similar study can be conducted in another Multinational corporation in a different industry to establish the kind of entry strategy that they implement and if they experience similar challenges depending on their nature of business.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This chapter gives a background for this study where it has given a discussion on the study concepts (challenges of direct investment and entry into new markets). It has introduced the theories that anchor this study, a situational analysis of Tullow Oil Company, the study concepts under investigation (direct investment and direct investment strategies) and a detailed situational analysis of Tullow Oil Company, research problem, research objective and the importance of the study.

The uncertain nature of the environment have forced firms to look beyond their boundaries by tapping into new markets and taking advantage of opportunities in order to grow and expand. Sarkar and Cavusgil (2006) posit that entry into new markets enables Multinational Corporations (MNCs) to explore resources, maximize their core competencies and accomplish corporate goals. Despite huge potential provided by entering new markets, high risks are involved and barriers that make it hard to enter new markets (Tallman & Fladmoe-Lindquist, 2002). The risk involved is liquidity risk and weather and some of the barriers are pro-investment policies, lack of government support and political stability (Sadaghiani & Dehghan, 2011).

The study was guided by the following theories: Eclectic paradigm (EP) and internationalization theory. EP theory holds that the location of production is dependent on resource availability. A firm must consider its location including transport costs and trade barriers when investing in a foreign country (Beckmann, 2009).
Internationalization theory contends that a firm is defined by the approach that it adopts to expand its international markets and investments over time, this can be determined through international sales and outward Foreign Direct Investment (FDI). Firms internalise in order to widen the scale of their operations and not necessarily to gain access to fresh markets and specialised resources (Blomstermo & Sharma, 2003).

Prospects that there might be oil in Kenya have seen oil drilling companies troop in to put millions of dollars in drilling wells in search for oil. Some of the international oil companies that have entered the Kenyan market in search of oil include Tullow Oil Company, BG Group, Apache, Africa Oil, Marathon, Anadarko and Camac Energy (Forbes, 2016). Oil plays an essential role in maintain the prices of goods and services at minimum levels. Oil companies such as the BG Group Plc (British Multinational oil and Gas Company) were reluctant to resume exploring and drilling of oil because of poor terms of natural gas since the current model of production has bias on oil terms (Some, 2013).

Following the discovery of oil into the Kenyan markets, international oil companies have made tremendous efforts in search of oil in Kenya. However, most drilling oil companies such as Tullow Oil Company adopt direct investment as a strategy to gain entry into the Kenyan market. While there is numerous entry strategies that this oil drilling companies can adopt, this study finds it worthwhile to establish why direct investment strategy is popular and the challenges that oil drilling companies face as a result of adopting this strategy (Al-Shahristani, 2013).
1.1.1 Foreign Direct Investment

Mintz and Weichenrieder (2010) define FDI can be defined as an investment that is undertaken to achieve a long-term interest in a firm or a different country from that of the investor. The main goal of the investor is to have a significant control of the firm or the business in a foreign country. FDI is achieved when a firm is able to invest directly in facilities and resources with the aim of producing or marketing a product in a foreign country. When a firm has undertaken a FDI, it qualifies to be a Multinational enterprise which implies that such a firm has operations in more than one country. FDI can take two forms: greed-field investment whereby new operations are established in a foreign country.

The other form is through acquisition or merger with an existing firm in a foreign country and investing in foreign financial instruments. FDI plays an instrumental role in enhancing growth and development of an economy (Choe, 2011; Li & Liu, 2011), this investment depends on the political, economic and social situations of the host country. There are several determinants of FDI that possess a direct or indirect impact on the decision to invest in an economy, they include cost of labour, size of the market, natural resources, political stability, infrastructure quality among others. FDI impacts positively on the host country by creating employment, developing innovative skills, introducing modern techniques of doing things, innovation and improving the working environment and conditions (Markusen & Venables, 2009).
1.1.2 Direct Investment Strategies

Wong and Tang (2011) contend that direct investment strategy is a designed plan to enter into a foreign market through investing in foreign-based production facilities. Under this strategy, the firm allocates a huge capital and management efforts to successfully enter the market. The firm can acquire a manufacturer or facility globally, or build a facility. Direct investment strategy gives the firm significant control and interest in its operations taking place in other countries. The firm has a 100 per cent ownership and participation in a foreign country and this is achieved as a start-up or through acquiring local firms. Acquisition of firms in foreign countries is a strategy that a MNC can adopt to gain entry into new markets since the firm has an advantage to easily access product portfolio, production facilities, customers, competent employees, knowledge about local conditions and contact with local authorities.

In saturated markets, acquisition can be a preferable way to establish a production facility in a foreign market. However, different management approaches between foreign investors and local management may result into conflicts. In some countries, 100 per cent ownership by foreign countries might not be allowed due to government restrictions (Mintz et al., 2010). As a strategy, direct investment allows foreign investors to have a greater degree of control as compared to other entry strategies such as licensing and joint ventures. It prevents leakage of patented information as well as avoidance of tariff and non-tariff barriers.
This minimises distribution costs since the business is ran in the local market and thus enabling the firm to consider local preference and tastes (Wong et al., 2011). Kemeny (2010) insists that a well-planned and executed strategy enables the firm to establish relations with the local distributors and to reinforce ties with host country government. However, this might be expensive and risky in some cases where the foreign investor losses money notwithstanding exposure to the risk of expropriation.

1.1.3 Tullow Oil Company in Kenya

Tullow Oil Company (TOC) is a multinational oil and gas company with its headquarters in London, United Kingdom. Tullow Company has a large pool of capital being a Publicly Listed Company (PLC). It is licensed to explore oil in 22 countries in Africa, Europe, South America and South Asia. ToC has invested in advanced technology, equipments and a group of employees to effectively explore and produce oil. On average, ToC produces 60,000 barrels of oil in a day. Other than exploration and production of oil, ToC contributes towards development through employment (Kavuma, 2009).

In 2014, the company had an estimated employee population of 2,000 workers operating in different regions. Among the activities that the workforce conducts include leading exploration campaigns and development projects. ToC has experienced incredible growth in the recent years due to the increase in the number of projects it is current running in Africa and other continents. In Africa, ToC has dominated oil exploration and production activities in most countries including Uganda, Kenya and Ghana. The company is credited with the discovery of Ngamia 1 oil in Kenya. It started its operation in 2010 after obtaining a license from Africa Oil and Centric Energy.
The agreement provided that the company would gain half the amount of interest for five onshore licenses. In 2012, the company increased the interest by 15%, and three years later the company has given out some interest (25%) to Delonex. It has since discovered about 250 million barrels of oil in Kenya’s Twiga South and Ngamia 1 wells. Further, the company has discovered Sabisa 1 and Etuko 1 wells in Ethiopia and Kenya, respectively. The company is set to increase its activities in Africa through partnering with companies such as Africa Oil. Through this partnership, the two companies intend to drill about ten wells in Kenya and Ethiopia (Al-Shahristani, 2013).

1.2 Research Problem

The world of business keeps on changing this has forced firms to think beyond their boundaries by investing new markets to take advantage of unexploited resources, and in so doing grow and expand their businesses. Chung and Enderwick (2008) contend that the kind of strategy adopted by an organisation to enter a certain market has a significant influence on its success in the foreign market. Sturgeon (2012) insists that a market entry strategy chosen by an organisation must be compatible with its nature of business. Despite this, there are others risks involved in new market entry that might impact negatively on the growth and expansion of an organisation such as political instability and poor infrastructure (McAfee et al., 2004). Tullow Oil Company has succeeded in most of its drilling programmes activities. In 2012, Ngamia-1 well successfully achieved over 200 metres of net oil pay, this followed onshore tertiary rift basin that was opened by Tullow and a series of successful exploration in the South Lokichar Basin at the Ngamia, Twiga, Etuko, Ekales-1, Agete, Amosing, Ewoi, Ekunyuk, Etom oil accumulations and most recently at Erut.
Tullow has several prospects and leads that it is yet to drill targeting upside in the South Lokichar basin and new basins across its acreage. This success is can be attributed to the support that ToC has received from Kenya Government such as independent development of Kenya resources that entails early production using modern infrastructure that can provide valuable reservoir data ahead of a full field development with an export pipeline.

This is part of government efforts to create a supportive environment for TOC to conduct its operations efficiently as well as strengthening the relationship between TOC and Kenya (Forbes, 2016). Dawei (2008) found that the companies adopted strategic alliances and joint venture to gain entry into the market. Zekir and Angelova (2011) found that the choice of the market entry strategy influenced the firms’ performance. Sadaghiani, Dehghan and Zand (2011) studied the impact of market entry strategy on export performance and the findings showed that entry strategy influenced export performance of Iranian export companies. Ngendo (2012) found that different firms used different entry modes and this informed the marketing strategies adopted. Ndwiga (2012) found that the Kenyan market was favourable for market entry and growth; the country was politically stable, the legal framework was stable and income distribution of the population was fair enough. Some (2013) found that some of the factors that attracted ToC to prospect for oil in Kenya was because of the availability of cheap labour, infrastructural development and technology advancement. Kimani (2014) found that political stability and government support and skilled labour were the main factors that enabled the organisation to enter the Kenyan market.
Although studies had been done on market entry strategies a limited focus was given to challenges of market entry, particularly direct investment as a strategy to enter new markets in the context of international oil drilling companies such as TOC in Kenya. It is because of this backdrop that this study sought to fill this gap by attempting to find an answer to the question: What are the challenges of direct investment strategy for a new market: case of Tullow Oil Company, Kenya?

1.3 Research Objective

The objective of this study was to determine the challenges of direct investment strategy for a new market using the case of Tullow Oil Company, Kenya.

1.4 Value of the Study

This study was impactful to the policy makers; the Ministry of Energy gained insights on the need to remove barriers that inhibit Multinational oil companies from investing in Kenya. This enhanced FDI and increased access to advanced technology, employment, technical skills and experiences as well as strengthening the relationship between Kenya and foreign countries. It served as a timely communication to MNCs on the choice of market entry into the Kenyan market and this impacted positively on their business success.

MNCs operating in Kenya and TOC understood the challenges faced by firms when trying to enter foreign markets and ways of overcoming such challenges. In addition, they learnt the market entry strategies that they adopted to tap into foreign markets in order to boost their market share. This knowledge enabled them to select the right market entry strategy based on the firm’s nature of business. International investors learnt how best they could optimize technology and innovation in gaining access into the Kenyan markets as well as aligning their entry mode to the firm’s overall strategy.
The contributed to the prevailing literature in the field of international business; Scholars appreciated FDI and the strategies that MNCs could adopt to enter a foreign market and thus increased their understanding on the importance of selecting a proper strategy when considering foreign market entry. International business management students understood the theories utilized in this study and how they related to the study variables (barriers of entering foreign markets and market entry) as well as the relevance of the theories to the study. The finding obtained in this study was used as a basis for further research.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter has given a discussion on the theories that anchor this study, challenges facing direct investment as a strategy to enter new markets. Moreover, the chapter has discussed the impacts of entry challenges on new market entry, the conceptual framework and a summary of the literature review.

2.2. Theoretical Framework

This section discusses the theories supporting this research; they include Eclectic Paradigm and Internationalization Theory. The history of the theories and their development has been discussed including the study variables that they predict, their relevance and application to the study. The significance of these theories is that they anchor the study and show their association with empirical studies.

2.2.1 Eclectic Paradigm

The Eclectic paradigm was postulated by John Dunning in a number of publications (Dunning 1980, 1981, 1992). Three factors that impact on global activities of MNCs include ownership (O), location (L) and internationalization (I) advantages. Dunning eclectic paradigm is also referred to as the OLI paradigm. OLI paradigm describes outward FDI, it maintains that MNCs develops competitive O gains at home then they take these to other nations (based on locational advantages) through FDI. This enables MNCs to easily achieve O benefits. With regard to Dunning’s own reasoning, there is a close link between ownership and internationalisation. It is easier for an MNC to internationalize if it enjoys ownership advantage.
A MNC that is knowledgeable about a given location can easily adopt in a new market. The limitation of this paradigm is that it seems to be too eclectic while the three aims of FDI seem to be over determined. The ownership benefits derived by a firm includes intangible assets such as knowledge, management skills, organisational structure including natural factor endowment such as human assets, initial capital, market structure, legal and institutional environment. Ownership advantage enables an MNC to easily analyse country factors. Dunning further argues that ownership benefits build capabilities for MNCs through forming alliances this is achieved through use of similar governance structures across borders in a way that allows development of relational assets enabling firms to gain access to resources. This network of business is driven by broad interpretation of ownership advantages. Zaheer (1995) argues that locational advantages in terms of the market size, natural resources, infrastructural development, educational system among other elements of political and government activities. The network of the business is driven by a broad interpretation of ownership advantages.

It was easier for ToC to prospect for oil and gas in Kenya since it had had existing operations in Africa. It can also be deduced that infrastructural development, natural resources and political stability enabled Tullow Company to conduct its operations effectively. This is supported by Dunning (1993) who indicated that location advantages is evident that location matters in terms of the size of the market, natural resources, infrastructural development, quality of education system and other elements of political and government activities. Due to location advantages, ToC was able to produce on its own without necessarily forming partnership arrangements such as licensing or joint venture (Stopford & Wells, 1991).
If MNCs prospect that entry into a new market will contribute to greater benefits the firm might consider a FDI other than licensing a third party to do so on their behalf. Firms can establish relationships with the governments to get shelter-type O benefits making it easier for such a firm to engage in international dealings. Dunning holds that internationalization gains are linked to transactional costs such that O benefits are needed to explain organisational, financial, and institutional benefits.

2.2.2 Internationalization Theory

Internationalization theory was put forward by Buckley and Casson (1976), Rugman (1981), and Hennart (1982), it is a firm-level theory that explains the reasons why MNC will exercise ownership over an intangible; knowledge-based, firm-specific advantage (FSA). Knowledge-advantages emanates from a transactional cost economics in which an externality is resolved through an organisational hierarchy overcoming cases of market failure. Other kinds of FSA such as brand advantage, managing skills and organisational competences are based on efficacy and are in harmony with the Resource-Based View (RBV) (Rugman & Verbeke, 2002).

MNC organises various activities within the firm in order to develop and explore firm-specific advantages (FSAs) among other kinds of intermediate products. Considering the possibility of market failure, internationalization (which involves performing activities within the MNC is seen as a governance strategy in developing and exploiting FSAs. Internationalization is an alternate to external market to develop and take advantage of available knowledge. Buckley and Casson (1976) argue that any kind of market imperfection like goods or factor markets can enhance pressure to MNCs to internalization. An MNC makes FDI when the gains from exploiting FSAs overcome extra costs of doing business globally.
Zaheer (1995) noted that the cost of running business globally was the liability of foreignness’. However, Hymer (1976) argued that apart from the cost of doing business, there were other barriers that faced foreign firms such as information costs that faced both foreign firms versus rivals of host countries; discriminative behaviour by their domicile government and overseas governments, unfamiliarity hazards as well as foreign exchange risks (Eden & Miller, 2004). In line with this study, a MNC should make a decision whether invest directly in foreign countries or produce at home and the export its products and services. It worth noting firms maximize their profitability in environments where there exists imperfect competition. If the cost of transportation is high, this will make it difficult for an MNC to do business in the foreign markets. In addition, if an MNC is not able to access important information about the market this might impact negatively on its establishment costs. Lastly, if there are transactional costs increasing circumstances an MNC might opt to internationalize and make a FDI.

2.3 Challenges Facing MNCs When Entering New Markets

Communication is a crucial element in business as it ensures smooth operation of activities between the involved parties. For the parties to transact business efficiently, they must understand the language used, which may be in the form of voice, arbitrary signals, signs and writing. A report by Barkema and Vermeulen (1997) in Europe showed that language barrier as a major challenge faced by MNCs operating in different parts of the world. MNCs operate in business environment characterized by different cultural, political, and economic status. For the businesses to succeed in the international market, they need to conceptualize socio-cultural aspects of the society including language and social approaches (OECD, 2010).
The social approaches used in communication differ from one society to the other, implying that the failure to understand the approaches affects the efficiency of communication negatively. However, some scholars in Bangladesh and Jordan (Akter, Rajasekera & Rahman, 2010; Ahmed, Rahman & Haque, 2011) argue that the different social approaches or diverse socio-cultural aspects offer an opportunity for value creation. Other studies do not view variation in social approach as a barrier to success of MNCs in international market (Okpara & Kabongo, 2010). Evidently, there is a strong link between language difference and nature of social approach used. In light of this; the current study proposes that language difference and social approach are the primary variables that act as social barriers for success of MNCs in developing nations. Luo and Tung (2012) argued that political instability is one of the leading barriers to success of MNCs, especially those operating in emerging economies.

Zeng et al. (2011) conducted a study in Europe and found that majority of MNCs do not reap maximum benefits of international trade due to political instability. Al-Hyari et al. (2012), also cites that political instability has adverse effect on business performance in Jordan, explaining that it reduces the ability of MNCs to conduct business activities. Further, MNCs that operate in politically unstable environments incur higher cost of doing business. The high cost of business reduces the competitive advantage of the companies and these impacts negatively on their success in the local and global markets. Lu and Beamish (2011) did a study on the barriers facing MNCs to enter foreign markets in the Netherlands; it was found that investors shy away from investing in politically unstable environments due to factors such as competitive disadvantage, high probabilities of market fluctuations, and additional cost of operation.
Although various studies link political instability to poor performance of MNCs, some researchers such as Okpara and Kabongo (2010) disregard it as a barrier to business success international market. Based on the available literature, it is inaccurate to conclude that political instability is a barrier to success of MNCs because the issue is still unsettled. However, this study posits that political instability hinders success of MNCs in developing economies, considering the close link it has with legal-political barriers of internationalization.

Legal systems differ from one nation to another but they aim at ensuring harmonious business operations. It is a requirement that businesses comply with the existing legal framework to avoid high monetary costs in fines and other non-monetary costs such as bad reputation. The legal procedures that businesses have to observe when operating in international market concern activities such as property registration, business permit, and filling of taxes. These variables determine the ease of doing business based on the number of days taken for a procedure to go through. In developing nations, the procedures take longer than in developed economies due to bureaucracy in the public sector. For example, one needs six working days to obtain a business permit in Bangladesh, while the same takes three days in developed countries (Nielsen & Nielsen, 2011).

The MNCs need additional legal requirements to operate in the countries, implying that it takes even longer before business operations can commence. Some of the additional requirements include currency restrictions, health and safety requirements, as well as standard requirements (OECD, 2006). In their study, Okpara and Kabongo (2010) found that complexity of legal procedures affects the business performance of MNCs.
Considering the close link between complexity of legal procedures and business performance, the current study holds that complexity of legal procedures associated with the political system in developing nations has adverse effect on the success of MNCs. Kirema (2013) studied the challenges facing market development in Sub-Saharan Africa in BASF and the results showed that logistical problems and regulatory framework were the main barriers that hindered market entry. Makhabu (2011) investigated market entry strategies in selected South African companies operating in Democratic Republic of Congo and it was found that inadequate skills, failure to enforce the law, poor quality infrastructure, corruption and volatility of the exchange rate impacted negatively on the costs of doing business in DRC. This makes the environment unfavourable to do business.

Ali (2014) examined the market entry challenges facing MNCs in Dar es Salaam and it was discovered that judicial system is a critical factor to consider when an investor is seeking to enter a new market. The manner in which justice is administered, the efficiency and soundness of the judicial system has a significant impact on the choice of an investor. He argued that failure to have a supportive government that enforce laws and regulations limits FDI. The difference between countries in terms of how favourable their environment is for investment, their administrative and regulatory framework highly determines which country to invest in. Kasekendi (2014) demonstrated that MNCs experienced several hindrances that made it difficult for them to enter the market in Uganda for instance regulatory framework and political risks since prospective investors will defer in the identification and implementation of projects until the risk profile is acceptable.
Other barriers include lack of incentives and pro-investment policies to attract investors in developing economies. Omollo (2013) explored the challenges that Oil and gas companies in Kenya and the results showed that language barriers and rivalry from the local communities were some of the key obstacles that hindered oil drilling companies to gain entry into the Kenyan market. Khaled and Raja (2013) showed that high costs of labour, competition and unavailability of raw materials affected MNCs' market entry in Kenya.

2.4 Summary of the Literature and Research Gaps

MNCs experience difficulties that inhibit them from gaining entry into a market. MNCs might be faced with political risks since they will defer in the identification and implementation of projects until the risk profile is acceptable. Other impediments include lack of incentive and pro-investment policies to attract investors in developing economies. Liberalization of developing economies have ignited competition for FDI hence reforms such as investment policies, investment guarantees, fiscal incentives, guaranteeing national treatment, allowing profit repatriation and simplifying administrative procedures and removal of capital controls which have attracted FDI.

Studies (Lu et al., 2011; Makhabu, 2011; Nielsen et al., 2011; Zeng et al., 2011; Luo et al., 2012; Al-Hyari et al., 2012; Khaled et al., 2013; Kirema, 2013; Ali, 2014) reveal that the key impediments that deter MNCs from gaining access into foreign markets are language barrier, political instability, the regulatory environment, cultural diversity, logistical problems, corruption, poor infrastructure, and exchange rate volatility. Nonetheless, these studies have did not look at market entry challenges specifically in direct investment as a foreign market entry strategy in the context of oil drilling firms.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the methodology that will be adopted to achieve the study objective. Research methodology involves collecting data with the goal of decision making. Included in this chapter is the study design, techniques of collecting data and data analysis.

3.2 Research Design

A case study design was adopted for this study. Yin (1994) defines a case study as an in-depth investigation of an area of study. This design allowed the researcher to get first-hand information on the object under study; this kind of data is accurate and unique. A case study strategy was utilized in enlightening situations in which the intervention being assessed lacks a clear set of outcome. The reason for choosing this design was because it was the most suitable when studying a single organisation such as ToC in this case.

Case studies give comprehensive data when a variety of approaches are adopted such as interviews, observations, video records and audio recording. This provided evidence that boosted the understanding of the case and this authenticated the study and validated the assumptions by the interviewer and the interviewees. With the case study, the researcher was able to get a feel of potentially key variables and to describe the phenomenon in its context.
3.3 Data Collection

Interview guides were used for collecting data. A one-on-one interview was carried out with the Departmental Heads at ToC who were Exploration Manager, the Operations Manager, the Marketing Manager and the Human Resource Manager. The interview guide was guided by the main goal of this study which is determining the challenges of adopting direct investment strategy for new market: Case of ToC in Kenya. The reason for selecting these category of interviewees was because they were involved in key decisions regarding market entry hence were aware of the challenges that MNCs faced.

The researcher contacted the supervisor of ToC before in order to plan for the interviews with the heads of departments to allocate adequate time for the interview sessions. This enabled interviewees to make relevant preparations so that they could respond effectively to all the questions that were posed by the interviewer. Published information sources were used for reference. This data was got from annual reports, bulletin and company repository.

3.4 Data Analysis

Content analysis approach informed the process of analysing data. Stake (1995) defines content analysis as a technique that is applied in making replicable and binding inferences by interpretation and coding textual data. Through evaluating texts (such as spoken words and graphics) systematically qualitative data was converted into qualitative form. The advantage of content analysis is that it gets at the centre of social interaction by reviewing communications made via texts transcripts and thus enables qualitative operations. This kind of analysis provides cultural insights through text analysis over time.
The shortcoming of this approach is that it is purely descriptive since it outlines what is there but might not unravel the underlying motive of the patterns observed. This approach uses a modest means to analyse interactions and providing insight into complex models of human thoughts and language usage. Through content analysis, the researcher detected the presence of some words or concepts within texts or sets of texts. It was also applied to determine emotional state of individuals or groups and to describe the attitudes and the manner in which interviewees responded to different communication approaches (Creswell, 1994).
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses analysed data that which was guided by the main objective of this study which was determining the challenges of direct investment strategy for a new market using the case of Tullow Oil Company. This chapter consists of the following sub-topics; background information, challenges of direct investment strategy and the discussion of findings.

4.2 Demographic Information

With regard to the positions that were held by the interviewees, it was found that one of the interviewee worked as the operations manager, the other interviewee was an exploration manager; the other one was a marketing manager and the last one was a human resource manager. This group of interviewees was directly involved in making market entry decisions by Tullow Oil Company.

Regarding the duration that the interviewees had served in the organisation, it was discovered that two of the interviewees had served for 15 years, another interviewee was in the 12th year and the last one was clocking the 10th year. It can be concluded that the interviewees had served in the organisation for a duration exceeding 10 years. This was an indication that the interviewees had a clear understanding of the organisation’s business processes and the nature of operations of Tullow Oil Company.
Concerning the duration that the interviewees had served in the recent positions, the results revealed that one of the interviewees had served for 10 years in the current position; there was a tie where two interviewees had served for 8 years in their current positions and the last interviewee served for 6 years in the current position. It can be concluded that the interviewees had served for a duration of more than 5 years in their current positions. This implied that the interviewees had a relevant experience on the challenges that Tullow Oil Company faced in its efforts to enter new markets.

**4.3 Challenges of Direct Investment Strategy For A New Market**

Interviewees were requested to explain how ToC selected its entry strategy in its efforts to enter new markets, they were in agreement that with so many options for international market entry, it was difficult for Tullow Oil Company to decide on the strategy to use to gain a successful entry into the Kenyan market and realize its strategic goals. That is why ToC had to plan since different markets and industries needed a different approach. Interviewees were in agreement that in order to choose the best strategy, ToC considered the markets, products or services that it was seeking to sell and its overall aim for international trade.

Secondly, three interviewees pointed out that ToC analyzed all the potential markets before making appropriate strategic decisions. This was intended to propel the company in devising strategies that could promote successful business implementation and market entry. The interviewees reported that the alignment between company goals and market entry strategy was a crucial factor. One of the interviewee emphasized that the best market entry strategy was one that enabled ToC to accomplish its mission and vision.
Thirdly, the interviewees agreed that the size of the company was a key component to consider when formulating a market entry strategy. They further agreed that some strategies were only effective after attaining a certain size. Direct investment in potential markets was considered as a market entry strategy that had proved to be effective. Before adopting the strategy, ToC determined the amount of resources that it owned. However, success of market entry strategies was dependent on the extent to which the company products and services were aligned to the chosen strategy.

Interviewees were in agreement that businesses were captivated by strategies that increased their return on investments and this explained the tendency to weigh between different options before arriving at a final decision. Remittance was considered a key factor in determining the effectiveness of a market entry strategy. External factors such as competition impact on the company’s competitive positioning. Therefore, ToC analyzed the level of competition in the potential market to enable them to make the right choice based on the effectiveness of the existing strategies. Three of all the interviewees noted that most businesses prioritize the welfare of stakeholders such as investors and employees in order to attract them into the business and motivate employees to work hard towards achieving set goals and objectives. This provides a solid base for business growth and expansion. Three of the interviewees emphasized on the significance of establishing good relationship with intermediaries, arguing that they serve as a conduit for market. Financial resources are essential in determining the success of an organization. The resources support primary company activities such as recruitment and hiring, as well as purchase of products.
Determining the amount of money required for investment in new market indicates whether it is possible to adopt a given strategy. In addition to investment, the interviewees also cited time as a crucial factor when selecting a market entry strategy. The duration before an investment generates returns differs with the strategies adopted. High-risk assets generate high returns; this does not imply that companies should seek high-risk investments only. To avoid making losses, ToC took calculated risks. Different market entry strategies carry varying amount of risk. To ensure a successful business, there was need for Tullow Oil Company to select low-risk market strategy due to the uncertain nature of the business environment that was characterized by technological changes and evolving customer needs. These changes had an impact on the business activities and profitability. To ensure that these changes affected its success positively, the company adopted a flexible market strategy that enabled it to withdraw when there was a need.

With regard to the choice of market entry strategy implemented by ToC in the Kenyan market, interviewees were in agreement that ToC adopted direct investment strategy to gain entry into the Kenyan market. This was achieved through allocating huge amounts of capital and managerial efforts to successfully gain entry. ToC set up a camp in Lokichar and leased machines and equipments for drilling and exploration of oil and gas. Use of direct investment has enabled ToC to control its operations in Kenya and other foreign countries efficiently with less difficulty. The company has also benefitted from cheap labour, qualified personnel, product portfolio and knowledge of local management. The interviewees acknowledged that a 100% ownership of their company was highly discouraged because of restrictions by the local governments.
ToC has a high level of control as compared to Licensing and Joint ventures this aids the company to mitigate leakage of propriety information and thus avoid tariff and non-tariff obstacles hence minimizing distribution costs making the company to be more sensitive to local tastes and preferences. The interviewees observed that ToC was able to establish strong links with its local distributors as well as building up ties with the Government of Kenya. Considering that this approach was quite expensive and risky due to the risk of expropriation.

Concerning whether ToC was planning to go on with direct investment as a market entry strategy, three of the interviewees gave the following reasons; this approach is flexible and it will enable ToC to adopt modern technology and employ new operational practices in future that might fit certain environmental conditions. One the interviewee noted that considering the current relationship between the Government of Kenya and Tullow Oil Company, this approach is useful because it will minimize the influence of the government over ToC. Further, the interviewees indicated that the fact that ToC had been operating in Kenya for more five years it was very difficult for the company to adopt another strategy in its exploration and drilling since the company had already invested a lot of money and resources in Kenya through this approach since it takes a long duration to set up and thus has a more solid footprint in a country.

On whether there was another market entry strategy that ToC could have implemented in gaining entry into Kenyan market, the interviewees concurred that there was no any other strategy that ToC could have adopted to enter into the Kenyan market due to its nature of operations. The company leases its drilling and exploration equipments from other countries; this is considered to be cheaper and safer unlike forming alliances. Having majority control over its operations, the company is able to meet its deadlines.
Also, the company is stable and has numerous drilling operations going on in most parts of Africa, Asia, Europe and America; it can hire or relocate some of its employees to work in new drilling areas. The interviewees were requested to point out the factors that top management considered before arriving at its decision to employ direct investment as a strategy to gain entry into the Kenyan markets. The interviewees revealed that the factors that the top management considered before deciding to implement direct investment as a strategy to enter the Kenyan market included the costs of doing business in Kenya.

ToC conducted undertook an extensive seismological survey to establish probable and proven reserves available for recovery before drilling because of the huge investment required in drilling equipment. For Tullow, equipments are among the major expenses for an oil producer and the other costs include cost of setting up infrastructure, access to roads, water and electricity. Political stability and economic stability of a country are essential aspects that ToC considered when entering into the Kenyan market. The interviewees noted that without political stability it would have been impossible for the company to enter Kenya in the first place and do conduct its activities. Tullow Oil Company looked at the political state of Kenya before arriving at its decision.

The interviewees explained that some of issues that they looked at were whether the country had the potential to support successful businesses. Instability was a major impediment towards successful business. The company evaluated the environment to find out whether it could affect its partnerships and the purchasing behaviour of the consumers. In view of this, Wong and Tang, (2011) argue that political changes of a country can affect import restrictions, labour issues and tax controls.
MNCs need to consider these factors before investing in a foreign market. Apart from being political stable, Kenya is gaining economic stability hence promising. The country is expected to be amongst the fastest growing countries in the horn of Africa with a growth projection exceeding 5% annually over the next 5 years. Nairobi, its capital city is a financial and business centre of Kenya and the Government is in pursuit of establishing it as a commercial hub in the region so as it can be at par with other financial centres around the world.

The interviewees agreed that direct investment as an entry strategy for new markets contributed significantly towards an improvement in performance. The company has majority control of its operations and thus, it can set its standards, policies and targets and motivate the local labourers to work towards achieving these targets without any interference from the local government. The company also enjoys economies of scales; it can decide to relocate some of its experts and professionals who are already working in the neighbouring countries other than hiring them from other companies. This way the company is able to save huge costs of labour and professional fees and thus contributing to the overall performance of the company. Today, we have the drilling and supervising engineers who are Ugandan nationalists at Lokichar in Turkana who were relocated when ToC commenced its drilling operations here in Kenya.

Regarding the key challenges that faced ToC when entering Kenyan markets, all the interviewees were in agreement that uncertainty of hidden costs of doing business in a foreign market for example custom duties for shipping equipments and facilities overseas for example hiring a freight forwarder and purchase of overseas shipping insurance were the greatest challenges.
Interviewees further cited cases where ToC requested for longer duration of credit extension that affected the company’s cash flow. The interviewees indicated that it was very risky and expensive to penetrate fresh markets citing an example whereby so far ToC has invested over an estimated $200 million to drill 40 oil wells in several parts of Turkana. This money is yet to be recovered until the company starts exporting oil. Tullow Oil Company took its time to understand the shipping regulations regarding its tools and equipments. The other factor that the company considered was export licensing requirements.

Three interviewees argued that nature of company operations including the products and services defined the form of license that was needed, as well as whether that commodity was to be shipped and the people who were involved in the export. The casual labourers from the neighbouring communities had limited knowledge about equipments, tools and facilities for drilling and exploration. Tullow Oil was forced to train these labourers so as to gain skills of handling and operating these equipments. This delayed the operations of ToC and thus delaying the time for project completion. Communication tools such as internet sources were inaccessible and only limited to urban centres and towns. Two of the interviewees pointed out that in some drilling areas such as Lokichar, it was impossible to use cell phones due to poor network coverage and weak signals.
This affected communication negatively; slowing down coordination of activities and processes at the drilling points. In some cases, the staff had to travel for very long distances to gain access to the network in order to make calls or even receive calls from the head office. The interviewees cited cases where ToC pulled out of Ethiopia. As reported by all the interviewees, it was not easy for ToC to meet its deadlines because of bureaucracy, procedures and processes which were involved in exploration and drilling. For instance the company had to a clearance certificate and approval from National Environmental Management Authority (NEMA). This took so long and thus delaying drilling and thus affected the time allocated for the project. Security was a key impediment that hindered entry of ToC into the Kenyan market.

This insecurity is a constituent of several factors such as rivalry from local communities, who demanded for jobs, benefits as well as being involved in the oil drilling contract between ToC and the Government of Kenya. Other forms of insecurity emanated from the terrorist attacks; Westgate attack that took place in 2014 and left 67 people dead. This followed another attack that took place in 2015 at Garissa University College leaving over 147 students dead. This heightened a state of insecurity and fear making it difficult for the company to continue with its operations peacefully.

Although language barrier was anticipated by the ToC, interviewees revealed that they experienced difficulties in their interactions with the host community particularly those that the company hired as casual labourers at the drilling sites. It was challenging to give instructions, communicate and coordination of activities when dealing with the local labourers this slowed down the company operations resulting into delays and inefficiencies.
With regard to the mechanisms employed by ToC to deal with challenges of market entry, interviewees reported that ToC put in place several mechanisms to deal with Kenyan market entry challenges; having established a good relationship with the Kenyan government, the Kenya police summoned two regional members of parliament from Turkana (James Lomenen and Nicholas Ngikor) who were believed to insight the communities on the protests. Tullow Oil has trained potential employees from the local communities to increase its employees in the region. So far, this has helped in minimizing rivalry and conflicts between communities hence the community is now beginning to feel as part and parcel of the oil contract.

As a way of empowering the community, interviewees agreed that ToC opened doors and opportunities for the host community. For example the ToC has given numerous contracts to the locals to supply materials in order to support the company activities. This has created employment opportunities and expansion of businesses. Transport business has also benefitted the local communities whereby few members of the local communities have been awarded contracts for transporting employees from drilling points to their camps. ToC has initiated training and development programs in a camp at Lokichar in Turkana where the local communities undergo through training and development to develop skills and knowledge in operating machines and handling equipments for drilling oil and exploration. This has improved efficiency and reduction of operational costs since the local communities understand the processes and the procedures are more motivated to work.
As reported by all the interviewees, ToC and the Kenya Government passed an amended law that provided how revenue sharing would be done between the national and county governments and the local communities. However, a batter over how oil revenue would be shared between Turkana County in Northern Kenya and the national government has intensified after President Uhuru Kenyatta failed to assent to the bill that outlined a resource-sharing formula. Turkana leaders, led by Governor Josephat Nanok are now agitating for increased allocation of the proceeds to the communities and the county government. Tullow Oil Company engages the local communities in drilling of boreholes and supporting schools and dispensaries by enhancing the quality of education and health care facilities. This is part of the CSR policy by this organisation to ensure increased access to quality basic services.

4.4 Discussion of Findings

The interviewees agreed that the choice of a suitable market entry strategy is one of noble decisions that companies face due to the wide range of options. Tullow Oil Company is not an exception. To avoid making erroneous decision on market entry strategy, the interviewees indicated that ToC conducted a deep analysis of potential markets to ensure the right choice of the market entry strategy which was well aligned with company goals. The findings are in agreement with Markusen and Venables, (2009) who averred that the choice of a new market was driven by a company need and realization of strategic goals. The interviewees further reported that the company ensured that the strategy was appropriate in marketing its goods and services and that it aligned with the main objective of its international trade. In view of this, Mintz and Weichenrieder, (2010) argued that a successful market penetration strategy for aligned to the company products and services prospects for business expansion.
Interviewees opined that following careful consideration of factors such as company size and available resources, the company settled for direct investment as the most suitable market entry strategy. This view is supported by Ahmed, Rahman and Haque (2011) who indicated that direct investment was an effective entry strategy into new markets since it allowed MNCs to fully control their businesses and resources.

The interviewees also reported that the market entry decision was influenced by projections on expected rate of return. This is agrees with the views of Wong and Tang (2011) who revealed that a decision to enter a foreign market was based on the anticipated returns to be derived from that market. The decision to select direct investment as the most suitable market entry strategy implies that it has been used by competing firms successfully over the years. Other factors that informed selection of the market entry strategy as reported by the interviewees included time, political stability, nature of intermediaries, level of risk tolerance, and cost of doing business in Kenya. These findings are also supported by Kirema (2013) and Ali (2014).

The company could not have selected a better market entry strategy, as implied by the interviewees. Through direct investment, Tullow Oil Company controls its activities in Kenya and other nations with ease as pointed by Ahmed et al., (2011). The strategy also helps reduce operational costs such as distribution expenses, as well as tariff and non-tariff barriers. Flexibility of direct investment allows the company to adopt changes in the business environment including adoption of modern technology thus maximizing its chances of success. In line with this is the theory of Eclectic paradigm put forward by Dunning (1980), he argued that for an MNC to internationalize successfully, it needed to adopt direct investment to penetrate fresh markets.
As demonstrated by all the interviewees, ToC controlled all its drilling activities and was also directly involved in drilling contracts with the national government and the county government (Turkana). As revealed by interviewees, ToC was able to set standards on various aspects that influence productivity such as employee relations policies. The major challenge of direct investment as evident from the interviewees revealed that there were hidden costs of doing business such as taxes and the risk of exploration, political instability and cultural environment. These results conform to Luo et al. (2012) and Al-Hyari et al. (2012) who revealed that the main impediment towards successful implementation of direct investment by MNCs included taxes, regulatory environment, political instability among others.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter gives a discussion regarding the key findings and the conclusion drawn from analysed data in chapter four. The subheadings discussed under this chapter include summary of the findings, conclusion, recommendations, limitations of this study and areas for future research.

5.2 Summary of Findings
Decision to adopt direct investment as the most suitable market entry strategy for Tullow Oil Company was informed by a number of factors, the company considered advantages and disadvantages of the market entry strategy as well as internal and external environment of the business. The internal environmental factors included size of the company, nature of its products and services, risk tolerance, as well as the financial resources owned by the company.

Concerning external environment, the company considered factors such as successful market entry strategies used by competitors, contribution of intermediaries to organizational success, cost of doing business in Kenya, and political stability. The company also weighed the advantages and the downside of market entry strategy to avoid investing in a costly and ineffective method. The interviewees reported that the market entry strategy was effective in promoting its competitive advantage due to some inherent merits.
Increased control of company activities is one of the major aspects that enhance the efficiency of the company, leading to increased competitive advantage. Direct investment allowed the company to adjust its activities to suit changes in the business environment, thus increasing the company’s success. Through direct investment, the company also eliminates tariff and non-tariff barriers that reduce the company’s profitability.

5.3 Conclusion

The key challenges of direct investment strategy that faced ToC when gaining entry into the Kenyan market included hidden costs of doing business in another country, a shipping regulations, poor roads and infrastructural facilities, communication problems; poor network coverage and satellite, rivalry from the local communities, inadequate support from the Kenyan government and political instability.

Some of the strategies that ToC has come up with to deal with these challenges are establishing a good relationship with the Kenyan government and the host community; providing job opportunities for them and sponsoring training and development programmes so as to develop skills and knowledge to enable them to operate machines and equipments, practising CSR such as building toilet facilities, drilling boreholes and financing schools and involving the local communities in oil contract agreements between ToC, the national and county governments.
5.4 Recommendations

The study recommends that Tullow Oil Company should continue adopting direct investment strategy for new markets. The findings showed that this approach is the best as compared to other all the approaches considering the company’s nature of work. It gives ToC a high level of control which is useful in minimizing leakage of propriety information and thus mitigates tariff and non-tariff problems. Moreover, this approach aids ToC to establish and build strong ties with the local government which is critical in enhancing successful drilling and the entire business operations.

5.5 Limitations for the Study

Due to time and cost constraints the study limited itself to Tullow Oil Company and thus the researcher explored a single organisation. This implies that the findings obtained under this study cannot be utilized for direct application in another organisation or to generalize the results got from this study in the oil industry in Kenya.

The other limitation faced by the researcher during data collection was that the managers were too busy and thus their deputies were interviewed on their behalf. The assist managers may not have similar experience as the managers on matters relating to challenges of direct investment as a strategy for new market entry since they are not directly involved in the implementation of these strategies and decision making. Thus, the information provided by the assistant managers may not have been accurate, reliable and detailed as compared to the information that the managers could have given.
5.6 Suggestions for Further Research

The study suggests that a comparative study ought to be conducted on the challenges of other entry strategies in new markets such as licensing and alliances. This will provide a window of opportunity to enrich the findings after which a more comprehensive and reliable conclusion may be drawn.

A similar study should be conducted in a country that is situated within the East Africa region which is similar in terms of size and other areas of intervention. This will provide researchers with an opportunity to compare findings in areas of commonalities and unique features then a conclusion can be drawn based on concrete facts.
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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

DATE: 9/11/2017

TO WHOM IT MAY CONCERN

The bearer of this letter, PASKOWINA WAMUFIRO KIMARU, Registration No. BGI125313412014, is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you,

PATRICK NYABUTO
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09 Nov 2017
APPENDIX II: INTERVIEW GUIDE

Section A: Background Information

1. What managerial position do you hold?

2. How long have you been working for the Tullow Company?

3. How long have you been working in your present capacity?

Section B. Challenges of Direct Investment Strategy for a New Market

1. Please explain how your company chooses its market entry strategy in a given market?

2. Please explain to me the market entry strategy that your company adopted to gain entry into the Kenyan market?

3. (i). Is your company planning to continue with direct investment as a market entry strategy into the Kenyan market?

   (ii) If yes, Why

4. What other market entry strategies that your company could have adopted to enter into the Kenyan market?
5. What are some of the factors that the top management considered before deciding to employ direct investment as a strategy to enter the Kenyan market?

6. Please explain ways in which direct investment strategy has influenced the company’s performance?

7. Please explain what are the key challenges that Tullow Oil Company faced when entering into the Kenyan market?

8. What mechanisms have Tullow Oil Company put in place to deal with the challenges of market entry?