# ENTRY STRATEGIES ADOPTED BY MULTINATIONAL MANUFACTURING COMPANIES IN KENYA

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# DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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

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# DEDICATION

I would like to dedicate my project to my beloved family.

# ABSTRACT

The focus of the operations of multinational corporations is on the coordination of the allocation of resources in its international operations in order to minimize production cost and maximize revenue. This research investigated the entry strategies adopted by multinational manufacturing companies in Kenya. The objectives of the study were to determine the entry strategies adopted by manufacturing multinational companies in Kenya and to determine the extent to which entry strategies affect performance.

This study adopted a survey design in the investigation of the entry strategies adopted by multinational manufacturing companies in Kenya. The study adopted a census approach and all the 45 companies which are involved in large scale manufacturing in Kenya were selected from the KAM Directory as at 31st July 2010. The study used both primary and secondary data.

The study found out that the factors that lead a company to enter into international business can be divided into either external (environment specific) and internal (firm specific). More favorable cost levels were found to be influencing the firm's decision to enter the Kenyan market to a great extent. Wholly owned subsidiaries was used as the main entry strategy to a very great extent

It can be concluded that the decision criteria for the mode of entry depends on socioeconomic characteristics, political and legal characteristics, financial conditions and consumer variables. Future research studies can examine how capital of multinational companies influences the entry strategy of the multinational company. Studying the past individual and shared experiences of managers can be fundamental in understanding a firm's current entry choices.

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# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more nations. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities, which involves cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources includes capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc (Buckley, 2005).

Multinational companies developed into competitive forces in the world economy. The focus of the operations of multinational corporations is on the coordination of the allocation of resources in its international operations in order to minimize production cost and maximize revenue. However, before companies can operate as multinational businesses, these firms also have to develop market-entry strategies to become competitive forces in a foreign economy. There are different strategies that multinational corporations may utilize to enter into a foreign market. The common strategies used in market entry are either marketing or operational. Marketing entry strategies include exporting and licensing where the company does not have to establish a physical base in the new market. Operational entry strategies include franchising, joint venture and foreign direct investment. After all these considerations, the multinational company can now concern itself with building a business structure, actual production, direct marketing as well as financial planning (Ajayi, 2001).

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than a country. An MNE is often called a multinational corporation (MNC) or transnational company (TNC). Well known MNCs include fast food companies such as McDonald's and Yum Brands, vehicle manufacturers such as General Motors, Ford Motor Company and Toyota, consumer electronics companies like Samsung, LG and Sony, and energy companies such as Exxon Mobil, Shell and BP. Most of the largest corporations operate in multiple national markets. Intensified technological and competitive challenges accompanying market globalization have resulted in the upsurge of international business involvement over the past two decades (Lu and Beamish, 2001). Despite the risk of greater resource commitment, international business arrangements provide potentially better long-term financial payback in comparison with less resource-laden foreign market entry and expansion modes such as exporting, licensing, and contract manufacturing. The strategic importance of an international business operations lie in that a firm can maintain more control over international business and enhance experiential knowledge, critical for further overseas commitments (Lu  and Beamish, 2001). Moreover, it may be neither feasible nor wise to compete in foreign markets via wholly owned production subsidiaries, as environmental risk or protectionist legislation may require local involvement (Meyer et al., 2007).

Penetrating an international market involves a process with zero-base since the business does not have an existing business in the market, there is limited knowledge on the market and lack of managerial competence to operate in the new market. A business introduced in a foreign market is likely to experience a greater rate of change than the change in the business environment because there are many internal adjustments to be made by the business organization. The company can address the situation by entering into partnerships with local firms for the distribution of products. It can also speed up the process of changing the marketing strategy through a new product or expanding distribution or changing the marketing organization by acquiring sole distribution of products (Craig and Grant, 1995).

At independence, the Kenya's economy and in particular manufacturing ownership structure was dominated by the European and Asian firms. MNCs from United Kingdom dominated in the European firm's category, which were engaged in heavy manufacturing processes while Asian firms dominated in the light manufacturing industries almost sharing the entire cake with no portion of it left for the indigenous locals (Bigsten and Kimuyu, 2010). The sector is large by regional standards and accounts for over 10% of Gross Domestic Product (GDP). It is a major source of employment in urban areas and possesses substantial backward and forward linkages to the rest of the economy and, is key to achieving the country’s vision of becoming prosperous and globally competitive by 2030. Manufacturing exports are targeted at both regional markets, including the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) as well as European and American markets. Starting with agro-processing, Kenyan manufacturers have in recent years, thanks to the African Growth Opportunity Act (AGOA) and associated export processing zones, increased exports of textiles, mainly targeting the US market (Bigsten and Kimuyu, 2010).

### 1.1.1 Kenyan Business Environment and Multinational Companies International Business Strategies

The global business environment has brought with it stiff competition and challenges to the Kenyan business firms. These firms had for a long time been protected by the government in addition to customer ignorance about the existence and accessing of goods and services from other parts of the world. The new challenges brought with it a wide perspective on how firms should be strategically managed in the wider global environment and international competition if they are to grow and survive. Multinational corporations (MNCs) operate in a global environment unfamiliar in political, economic, social, cultural, technological and legal aspects. Increased competition among multinational corporations and the entry of other players in the Kenyan market necessitate the design of competitive strategies that guarantee performance. Creating strategies for coping with competition is the heart of strategic management which is critical for the long term survival of any organization (Mulaa, 2004).

Kenya has a large scale manufacturing sector serving both the local market and exports to the East African region. The sector, which is dominated by subsidiaries of multi-national corporations, contributed approximately 13% of the Gross Domestic Product (GDP) in 2004. Improved power supply, increased supply of agricultural products for agro processing, favourable tax reforms and tax incentives, more vigorous export promotion and liberal trade incentives to take advantage of the expanded market outlets through AGOA, COMESA and East African Community (EAC) arrangements, have all resulted in a modest expansion in the sector of 1.4 % per cent in 2004 as compared to 1.2% in 2003 (Bigsten and Kimuyu, 2010).

### 1.1.2 Entry Business Strategies by Manufacturing Multinational Companies in Kenya

International business strategy is a critical component of the holistic approach of organizations attempting to penetrate international markets successfully. Business organizations have to create approaches, which will cater to all organizational facets such as marketing, human resources management, operations management, risk management and other critical aspects of an organization if they have to put together feasible international strategies, which will suffice in overcoming challenges of entering international markets. Although there is ongoing debate on multinational corporations strategy over the approaches like standardization versus adaptation there is confluence of ideas and the recognition that multinationals have to put together working and feasible business strategies that will suffice for the volatile and distinct environs in which international businesses operate (Balabanis, 2003).

International firms may choose to do business in a variety of ways. Some of the most common include exports, licenses, contracts and turnkey operations, franchises, joint ventures, wholly owned subsidiaries, and strategic alliances. Exporting is often the first international choice for firms, and many firms rely substantially on exports throughout their history. Exports are seen as relatively simple because the firm is relying on domestic production, can use a variety of intermediaries to assist in the process, and expects its foreign customers to deal with the marketing and sales issues. Many firms begin by exporting reactively; then become proactive when they realize the potential benefits of addressing a market that is much larger than the domestic one (Buckley, 2005).

Licenses are granted from a licensor to a licensee for the rights to some intangible property (e.g. patents, processes, copyrights, trademarks) for agreed on compensation (a royalty payment). Many companies feel that production in a foreign country is desirable but they do not want to undertake this production themselves. In this situation the firm can grant a license to a foreign firm to undertake the production. The licensing agreement gives access to foreign markets through foreign production without the necessity of investing in the foreign location.

Contracts are used frequently by firms that provide specialized services, such as management, technical knowledge, engineering, information technology, education, and so on, in a foreign location for a specified time period and fee. Contracts are attractive for firms that have talents not being fully utilized at home and in demand in foreign locations. Turnkey contracts are a specific kind of contract where a firm constructs a facility, starts operations, trains local personnel, then transfers the facility (turns over the keys) to the foreign owner. These contracts are usually for very large infrastructure projects, such as dams, railways, and airports, and involve substantial financing; thus they are often financed by international financial institutions such as the World Bank (Buckley, 2005). Franchises on the other hand involve the sale of the right to operate a complete business operation. Well-known examples include independently owned fast-food restaurants like McDonald's and Pizza Hut. A successful franchise requires control over something that others are willing to pay for, such as a name, set of products, or a way of doing things, and the availability of willing and able franchisees.

Joint ventures involve shared ownership in a subsidiary company. A joint venture allows a firm to take an investment position in a foreign location without taking on the complete responsibility for the foreign investment. Joint ventures provide an effective international entry when partners are complementary, but firms need to be thorough in their preparation for a joint venture.

Wholly-owned subsidiaries involve the establishment of businesses in foreign locations which are owned entirely by the investing firm. This entry choice puts the investor parent in full control of operations but also requires the ability to provide the needed capital and management, and to take on all of the risk. Where control is important and the firm is capable of the investment, it is often the preferred choice. Strategic alliances are arrangements among companies to cooperate for strategic purposes. Strategic alliances can involve no joint ownership or specific license agreement, but rather two companies working together to develop a synergy. Joint advertising programs are a form of strategic alliance, as are joint research and development programs. In spite of this, many smaller firms find strategic alliances allow them to enter the international arena when they could not do so alone (Buckley, 2005).

## 1.2 Research Problem

Multinational companies developed into competitive forces in the world economy. The focus of the operations of multinational corporations is on the coordination of the allocation of resources in its international operations in order to minimize production cost and maximize revenue. However, before companies can operate as multinational businesses, these firms also have to develop market-entry strategies to become competitive forces in a foreign economy.

The issue of global strategy is hotly debated (Prahalad and Doz, 1987; Bartlett and Ghoshal 1989; Zou and Cavusgil, 1996). There is therefore a need for construct itself first needs to be explored. The existing literature provides useful starting points. Work on internationalization in the manufacturing sector, reviewed by Burgess et al. (1995), has examined a number of issues facing multinational operators, including entry mode strategy (Litteljohn and Roper, 1991 Slattery, 1996) and international marketing strategies (Crawford-Welch, 1991; Alexander and Lockwood, 1996). Particularly pertinent are studies by Go and Pine (1995), who describe the key factors driving the development of global strategies, and Go et al. (1996) on the operations of the Four Seasons group. However, their analysis also showed that in many operational activities, policy is substantially localized.

Mutia (2002) did a study on the assessment of the perceived attraction of the Kenyan market to international airlines and found that the international airlines were attracted to the Kenyan market due to legislation and cost savings. Kieti (2006) in his study of the determinants of foreign entry strategies among Kenyan firms venturing into Southern Sudan found out that the firms used exporting, investment, licensing and other contractual agreements to venture into Southern Sudan. Kisia (2006) did an analysis of factors affecting the provision of services by banks to international business at the National Bank of Kenya. He found out that some of the factors were capital constraints and infrastructure. Makori (2006) did a study on the challenges faced by African airlines in selecting and entering international markets. The study found out that the challenges were lack of customers, restricted routes, high cost at the international markets and high competition.

Kiandiko (2007) in his analysis of the extent to which barriers to entry have contributed to profitability in the air compressor industry in Kenya found out that the huge capital outlay and monopoly in the industry served as barriers to entry into the air compressor industry to a large extent. Mokamba (2007) in his study on the strategic responses of Kenyan large manufacturing firms operating within E.A. found that opportunities and challenges of regional integration the EAC provide an attractive investment zone for all companies. Business opportunities in the EAC exist in infrastructure, horticulture, agriculture, Information and Communication Technologies, Energy, manufacturing, mining, building, construction, housing and financial sectors. The companies have the necessary capability to exploit perceived entrepreneurial opportunities in the East African Community. Mulongo (2008) did a study on the change of foreign entry strategies for global firms in Ericsson Kenya. He found out that Ericsson continuously changed its entry strategies to enter new markets and remain competitive.

None of the previous studies has dealt with the entry strategies adopted by manufacturing multinational companies in Kenya thus a gap exists to warrant this study. Given the critical role that the manufacturing multinational companies play in Kenya, it is important to evaluate the entry strategies they have adopted and the factors that influence their performance. The study sought to answer the following research question:

What are the entry strategies adopted and their effect on performance of manufacturing multinational companies in Kenya?

## 1.3 Research Objectives

The objectives of the study were:

i) To determine the entry strategies adopted by manufacturing multinational companies in Kenya.

ii) To determine the extent to which entry strategies affect performance of manufacturing multinational companies in Kenya

## 1.4 Value of the Study

This study will be of value to multinational companies, as they will have a ready source of information on entry strategies being adopted by manufacturing multinational companies in Kenya. Sectors in other industries will also benefit by gaining insight of entry strategies being applied in the manufacturing sector. These firms will need to grow as many people rely on them and it is not known what strategies are used that can contribute to their success.

It will also be of value to the government as it will provide guidelines for the designing of policies aimed at enhancing the international sector trade and policy documents for the regulation and governance of the multinational companies.

Scholars will use the outcome of this project to fill the academic gap as no study has been undertaken on entry strategies used by manufacturing multinational companies in Kenya. Academically, this study will contribute to the existing knowledge in the field of International business in general and particularly on entry strategies. It will also act as a stimulus for further research in the area of entry strategies used by manufacturing MNCs globally.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter is structured based on the research objectives. It reviews the relevant literature available that focuses on the concept of international business, and the entry strategies adopted by manufacturing multinational companies in Kenya.

## 2.2 Multinational Companies and International Markets

International business grew substantially in the second half of the twentieth century, and this growth is likely to continue. The international environment is complex and it is very important for firms to understand this environment and make effective choices in this complex environment. International business strategy is a critical component of the holistic approach of organizations attempting to penetrate international markets successfully. Business organizations have to create approaches, which will cater to all organizational facets such as marketing, human resources management, operations management, risk management and other critical aspects of an organization if they have to put together feasible international strategies, which will suffice in overcoming challenges of entering international markets. Although there is ongoing debate on multinational corporations strategy over the approaches like standardization versus adaptation there is confluence of ideas and the recognition that multinationals have to put together working and feasible business strategies that will suffice for the volatile and distinct environs in which international businesses operate (Buckley, 2005).

When an organization has made a decision to enter an overseas market, there are a variety of options open to it. These options vary with cost, risk and the degree of control which can be exercised over them. The simplest form of entry strategy is exporting using either a direct or indirect method such as an agent, in the case of the former or counter trade, in the case of the latter (Terpstra and Sarathy, 2000). More complex forms include truly global operations which may involve joint ventures, or export processing zones. Having decided on the form of export strategy, decisions have to be made on the specific channels. Many agricultural products of a raw or commodity nature use agents, distributors or involve Government, whereas processed materials, whilst not excluding these, rely more heavily on more sophisticated forms of access (Jeannet and Hennessey, 2004).

In building a market entry strategy, time is a crucial factor. The building of an intelligence system and creating an image through promotion takes time, effort and money. Brand names do not appear overnight. Large investments in promotion campaigns are needed. Transaction costs also are a critical factor in building up a market entry strategy and can become a high barrier to international trade. Costs include search and bargaining costs. Physical distance, language barriers, logistics costs and risk limit the direct monitoring of trade partners. Enforcement of contracts may be costly and weak legal integration between countries makes things difficult. Also, these factors are important when considering a market entry strategy. In fact these factors may be so costly and risky that Governments, rather than private individuals, often get involved in commodity systems (Nargundkar, 2003).

New market opportunities may be made available by expansion but the risks may outweigh the advantages, in fact it may be better to concentrate on a few geographic areas and do things well. Ways to concentrate include concentrating on geographic areas, reducing operational variety (more standard products) or making the organizational form more appropriate. In the latter the attempt is made to "globalize" the offering and the organization to match it. Global approaches give economies of scale and the sharing of costs and risks between markets (Nargundkar, 2003).

## 2.3 International Manufacturing Multinational Companies

Multinational corporations have existed since the beginning of overseas trade. They have remained a part of the business scene throughout history, entering their modern form in the 17th and 18th centuries with the creation of large, European-based monopolistic concerns such as the British East India Company during the age of colonization. Multinational concerns were viewed at that time as agents of civilization and played a pivotal role in the commercial and industrial development of Asia, South America, and Africa. By the end of the 19th century, advances in communications had more closely linked world markets, and multinational corporations retained their favorable image as instruments of improved global relations through commercial ties (Stopford, 1998).

In more recent times, multinational corporations have grown in power and visibility, but have come to be viewed more ambivalently by both governments and consumers worldwide. Indeed, multinationals today are viewed with increased suspicion given their perceived lack of concern for the economic well-being of particular geographic regions and the public impression that multinationals are gaining power in relation to national government agencies, international trade federations and organizations, and local, national, and international labor organizations. Despite such concerns, manufacturing multinational corporations appear poised to expand their power and influence as barriers to international trade continue to be removed. Furthermore, the actual nature and methods of multinationals are in large measure misunderstood by the public, and their long-term influence is likely to be less sinister than imagined. Manufacturing multinational corporations share many common traits, including the methods they use to penetrate new markets, the manner in which their overseas subsidiaries are tied to their headquarters operations, and their interaction with national governmental agencies and national and international labor organizations (Stopford, 1998).

## 2.4 Entry Strategies of Multinational Corporations into New Markets

Entering another economy requires the transfer of financial resources, management skills and technology to another market. There are several ways of gaining market entry for multinational firms, which are exporting, franchising, licensing, joint venture and foreign direct investment. Foreign direct investment provides greatest control of production by the foreign company but requires the greatest use of resources. Franchising and joint venture involves moderate degree of control as well as a moderate infusion of resources. International firms may choose to do business in a variety of ways. Some of the most common include exports, licenses, contracts and turnkey operations, franchises, joint ventures, wholly owned subsidiaries, and strategic alliances (Hill, 2003). Once a firm has identified a foreign potential market, it can adopt one or a mix of the following strategies to gain market access:-

Exporting refers to the process of marketing and distributing products to a foreign market. This activity involves the interaction between the exporter, importer, transport provider and the government of the foreign country. The goods distributed are not produced in the foreign market so that there is no need to establish a physical structure in the new market. Costs involved covers marketing activities of the company. This market entry strategy is ideal for business firms with limited knowledge and experience on international operations (Luo, 2002).

Exporting is often the first international choice for firms, and many firms rely substantially on exports throughout their history. Exports are seen as relatively simple because the firm is relying on domestic production, can use a variety of intermediaries to assist in the process, and expects its foreign customers to deal with the marketing and sales issues. Many firms begin by exporting reactively; then become proactive when they realize the potential benefits of addressing a market that is much larger than the domestic one. Effective exporting requires attention to detail if the process is to be successful; for example, the exporter needs to decide if and when to use different intermediaries, select an appropriate transportation method, preparing export documentation, prepare the product, arrange acceptable payment terms, and so on (Hough and Neuland, 2000).

Most importantly, the exporter usually leaves marketing and sales to the foreign customers and these may not receive the same attention as if the firm itself under-took these activities. Larger exporters often undertake their own marketing and establish sales subsidiaries in important foreign markets. Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices would be indirect exporting, direct exporting, licensing, joint ventures and direct investments. The normal way to get involved in foreign market is through export. Occasional exporting is a passive level of involvement in which the company exports from time to time, either on its own initiative or in response to unsolicited orders from abroad. Active exporting takes place when the company makes a commitment to expand into a particular market (Hill, 2003).

Companies typically start with indirect exporting- that is they work through independent intermediaries. Domestic-based export merchants buy the manufacturer's products and then sell them abroad. Domestic-based export agents seek and negotiate foreign purchases and are paid a commission. Cooperative organizations carry on exporting activities on behalf of several producers and are partly under their administrative control. Export-management companies agree to manage a company's export activities for a fee. Indirect export is a low cost entry strategy and has two advantages. First, it involves low investment; the firm does not have to develop an export department, an overseas sales force, or a set of foreign contacts. Second, it involves less risk; because international-marketing intermediaries bring know-how and services to the relationship, the seller will normally make fewer mistakes. Companies eventually may decide to handle their own exports. The investments and risk are somewhat greater, but so is the potential return (Luo, 2002).

A company can carry on direct exporting in several ways: Domestic-based department or division: Might evolve into a self-contained export department operating as a profit center. Overseas sales Branches or subsidiary: The sales branch handles sales and distributions and might handle warehousing and promotion as well. It often serves as a display and customer service center. Traveling export sales representatives: Home-based sales representatives are sent abroad to solicit for business. Foreign-based distributors or agents: These distributors and agents might be given exclusive rights to represent the company in that country or limited rights only (Meyer and Tran, 2006).

Piggybacking is an exporting arrangement that involves taking advantage of the channels of distribution in the global market instead of targeting a particular market. A company that successfully used this strategy is F&P Gruppo, an Italian rice firm that owns the Gallo brand. The company entered Poland through its subsidiary in Argentina because the Argentinean air force was sending empty air freighters to Poland that comes back with imports. Food companies took advantage of the cheaper way of exporting products.  Another manner of piggybacking is the joining of two companies to take advantage of a channel of distribution. This is applied by IBM and Minolta with the latter taking advantage of the established distribution channels of IBM and the former welcoming a firm to share the cost of distribution (Meyer and Tran, 2006).

Licensing on the other hand is the process of permitting a local company to use the property of the licensor in exchange for a fee. Licensing offers the least level of control because it also involves the least utilization of resources. The property refers to intangible things such as patents, trademarks as well as production techniques. This arrangement involves the infusion of little resources enabling the licensor to obtain a high return on investment. However, there is a risk of revenue loss because the licensee produces and markets products and collects revenue (Meyer and Tran, 2006).

Licensing also refers to the market entry of business firms with a distinct legally protected asset that constitutes their distinction in the market. Distinct protected assets covers brand name, technology, product design and manufacturing or service process. Licensing is not an exclusive strategy in global marketing (Nargundkar, 2003). Disney is a company renowned for licensing cartoon characters to manufacturing and other firms within and outside the United States. The central activity of Disney is its media productions while marketing is done by the business firms permitted to use Disney cartoon characters. In department stores cartoon characters are found in children’s clothing, shoes, bags, pens and toys  while in supermarkets Disney characters are used in shampoos, soap, diapers, milk, cereals and a wide array of other products.

Licensing is a simple way to become involved in international marketing. The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade, secret, or other item of value for a fee or royalty. The licensor gains as this is as well a low cost entry strategy; the licensee gains production expertise or a well-known product or brand name. Licensing has potential disadvantages. The licensor has control offer the licensee than it does over its own production and sales facilities. Furthermore, if the licensee is very successful, the licensing firm might have given up profits; and if and when the contract ends, the company might find that it has created a competitor. To avoid this, the licensor usually supplies some proprietary ingredients or components needed in the product; but the best strategy is for the licensor to lead in innovation so that licensee will be dependent on the licensor. Another variation is contract manufacturing, in which the firm hires local manufacturers to produce the product (Hill, 2003).

Licenses are granted from a licensor to a licensee for the rights to some intangible property (e.g. patents, processes, copyrights, trademarks) for agreed on compensation (a royalty payment). Many companies feel that production in a foreign country is desirable but they do not want to undertake this production themselves. In this situation the firm can grant a license to a foreign firm to undertake the production. The licensing agreement gives access to foreign markets through foreign production without the necessity of investing in the foreign location. This is particularly attractive for a company that does not have the financial or managerial capacity to invest and undertake foreign production (Thompson and Strickland, 2004). The major disadvantage to a licensing agreement is the dependence on the foreign producer for quality, efficiency, and promotion of the product—if the licensee is not effective this reflects on the licensor. In addition, the licensor risks losing some of its technology and creating a potential competitor. This means the licensor should choose a licensee carefully to be sure the licensee will perform at an acceptable level and is trustworthy. The agreement is important to both parties and should ensure that both parties benefit equitably (Luo, 2002).

Joint venture refers to the management arrangement that involves the partnership of a foreign company and a local company based on the sharing of capital, technological resources and other benefits. The foreign company benefits from the relationship by gaining entry into the market and taking advantage of the expertise of the local company on the political and economic environment while the local company benefits from enjoying the infusion of capital and technological innovations into its operations. The extent of control of the foreign and local firms in the joint venture depends upon the agreement and the legal limitations (Meyer and Tran, 2006).

Foreign investors may join with local investors to create a joint venture company in which they share ownership and control. A joint venture may be necessary or desirable for economic or political reasons. The foreign firms might lack the financial, physical, or managerial resources to undertake the venture alone; or the foreign government might require joint ownership as a condition for entry. Even corporate giants need joint ventures to crack the toughest markets. Joint ownership has certain drawbacks. The partners might disagree over investment, marketing, or other policies. One partner might want to reinvest earnings for growth, and the other partner might want to declare more dividends. Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis (Hill, 2003).

Joint ventures involve shared ownership in a subsidiary company. A joint venture allows a firm to take an investment position in a foreign location without taking on the complete responsibility for the foreign investment. Joint ventures can take many forms. For example, there can be two partners or more, partners can share equally or have varying stakes, partners can come from the private sector or the public, partners can be silent or active, partners can be local or international. The decisions on what to share, how much to share, with whom to share, and how long to share are all important to the success of a joint venture. Joint ventures have been likened to marriages, with the suggestion that the choice of partner is critically important. Many joint ventures fail because partners have not agreed on their objectives and find it difficult to work out conflicts. Joint ventures provide an effective international entry when partners are complementary, but firms need to be thorough in their preparation for a joint venture (Thompson and Strickland, 2004).

The New Corporation by its strategic joint ventures became a multinational company. Its corporate projects started out as a drive to expand its reach to other countries apart from Australia. It ventured into the UK purchasing newspapers both national and local and then it set foot in the United States to introduce his company as a potent competitor to existing companies. The most recent venture is developing its business in Asia particularly in China and Hong Kong, India, Indonesia and the Philippines which catered not only to the English speaking locals but also accommodated and aired the local events and locally produced movies and television programs. In countries where there are established broadcasting companies the strategy of The

News Corporation is to gain control of the channels of distributing televised news by gaining controlling interest in influential cable companies through joint ventures. When satellite television was introduced, it also acquired interests in satellite corporations. After being assured of the means of showing its programs, the company had the freedom to create and develop its shows. The company is known for hit movies Titanic and Independence Day and the kids channel Fox Kids (Deloitte (2006).

Foreign direct investment (FDI) is a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise) (Nargundkar, 2003). Foreign direct investment implies the development of a lasting interest in the establishment of a continuing relationship of the direct investor with the enterprise including influencing the management of the firm to a certain degree (Stopford, 1998). Foreign direct investment allows the direct investor and the direct investment enterprise to experience certain economic benefits from the relationship. On one hand, the direct investor is able to engage in new ventures or expand into other economies by sharing capital, management expertise and technology to the direct investment enterprise (Nargundkar, 2003).

On the other hand, the direct investment enterprise benefits from capital infusion, technological transfer and management skill acquisition necessary for growth (Stopford, 1998). International business firms that have fared well through foreign direct investment include General Motors that established a plant in the Philippines as well as Coca-cola and Pepsi with processing plants in every geographical region for cost-efficiency. The ultimate form of foreign involvement is direct ownership of foreign-based assembly or manufacturing facilities. The foreign company can buy part or full interest in a local company or build its own facilities. If the market appears large enough, foreign production facilities offer distinct advantages. First the firm secures cost economies in the form of cheaper labor or raw materials, foreign-governments investments incentives, and freight savings. Secondly, the firm would strengthen its image in the host country because of job creation. Thirdly, the firm may develop a deeper relationship with the government, customers, local suppliers, and distributors, enabling it to adapt its products better to the local environment (Hill, 2003).

Fourthly, the firm may retain full control over its investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives. Fifthly, the firm would assure itself access to the market in case the host country starts insisting that locally purchased goods have domestic content. The main disadvantage of direct investment is that the firm exposes a large investment to risks such as blocked or devalued currencies, worsening markets, or expropriation. The firm will find it expensive to reduce or close down its operations, because the host country might require substantial severance pay to the employees. The firm may also risk double taxation from both host and home countries (Hill, 2003).

Strategic alliances are cooperative arrangements between two or more companies to cooperate for strategic purposes. The partners are in an alliance; seek to add to their competencies by combining their resources with those of other firms with a commitment to reach an agreed goal. Generally partners tend to be of comparable strengths and resources but this is not always the case. Strategic alliances tend to be contractual rather than equity arrangement. Licenses and joint ventures are forms of strategic alliances, but are often differentiated from them (Hill, 2003). Strategic alliances can involve no joint ownership or specific license agreement, but rather two companies working together to develop a synergy. Joint advertising programs are a form of strategic alliance, as are joint research and development programs. Strategic alliances seem to make some firms vulnerable to loss of competitive advantage, especially where small firms ally with larger firms. In spite of this, many smaller firms find strategic alliances allow them to enter the international arena when they could not do so alone (Thompson and Strickland, 2004).

Contracts are used frequently by firms that provide specialized services, such as management, technical knowledge, engineering, information technology, education, and so on, in a foreign location for a specified time period and fee. Contracts are attractive for firms that have talents not being fully utilized at home and in demand in foreign locations. They are relatively short-term, allowing for flexibility, and the fee is usually fixed so that revenues are known in advance. The major drawback is their short-term nature, which means that the contracting firm needs to develop new business constantly and negotiate new contracts. This negotiation is time consuming, costly, and requires skill at cross-cultural negotiations. Revenues are likely to be uneven and the firm must be able to weather periods when no new contracts materialize (Deloitte, 2006).

Turnkey contracts are a specific kind of contract where a firm constructs a facility, starts operations, trains local personnel, then transfers the facility (turns over the keys) to the foreign owner. These contracts are usually for very large infrastructure projects, such as dams, railways, and airports, and involve substantial financing; thus they are often financed by international financial institutions such as the World Bank.

Companies that specialize in these projects can be very profitable, but they require specialized expertise. Further, the investment in obtaining these projects is very high, so only a relatively small number of large firms are involved in these projects, and often they involve a syndicate or collaboration of firms (Deloitte, 2006).

Franchising is a market entry strategy as well as a hybrid manner of organizing the business by establishing a relationship of agency with the franchisees (Barton, Ron, and Bishko, 1998). Franchising involves the convergence of a parent company and several small businesses. The parent company sells to the smaller businesses the right to distribute its products or use its trade name and processes. The agency relationship established between the parent company and the franchisee is governed by a contract (Dawar and Chattopadhay, 2002). The franchise contract defines the conditions of the agency and the duration of the relationship (Meyer and Tran, 2006).

Franchises involve the sale of the right to operate a complete business operation. Well-known examples include independently owned fast-food restaurants like McDonald's and Pizza Hut. A successful franchise requires control over something that others are willing to pay for, such as a name, set of products, or a way of doing things, and the availability of willing and able franchisees. Finding franchisees and maintaining control over their assets in foreign countries can be difficult; to be successful at international franchising firms need to ensure they can accomplish both of these (Meyer and Tran, 2006).

Wholly-owned subsidiaries involve the establishment of businesses in foreign locations which are owned entirely by the investing firm. This entry choice puts the investor parent in full control of operations but also requires the ability to provide the needed capital and management, and to take on all of the risk. Where control is important and the firm is capable of the investment, it is often the preferred choice. Other firms feel the need for local input from local partners, or specialized input from international partners, and opt for joint ventures or strategic alliances, even where they are financially capable of 100 percent ownership (Hill, 2003).

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter is concerned with the various steps that facilitated execution of the study to satisfy the study objectives. These steps include: research design, population of interest, sample data collection instruments and procedures and, data analysis.

## 3.2 Research Design

This is the plan according to which research respondents were chosen, information collected, data analyzed and interpretation done. According to Mugenda and Mugenda (1999), descriptive survey is used to obtain information concerning the current status of the phenomena to describe what exists with respect to variables in a situation, by asking individuals about their perceptions, attitudes, behavior or values. According to Sekaran (2003) a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. The research adopted the survey design to assist us to get the objective of the study. The research was modeled on a descriptive survey study design which according to Cooper and Schneider (1999), a study concerned with finding out what, where, and how of a phenomenon is a descriptive study. Aosa (1992) and Kiptugen (2003) have used this design in related studies.

## 3.3 Population

The population of interest was the manufacturing multinational companies in Kenya. These are as provided by the Kenya Association of Manufacturers. KAM has approximately 600 members drawn from formal sector industries comprising of small, medium and large enterprises. All together, the members constitute 13 industrial sectors. The large manufacturing companies in Nairobi form a population of 45 companies which are involved in Sugar, Cement, Soda Ash, Milk, Beer and Cigarettes Production which will be selected from the KAM Directory as at 31st July 2010.

The study adopted a census approach due to the small number of large scale manufacturing companies. All the 45 companies which are involved in large scale manufacturing in Kenya were subjected to the study where it focussed on the Managing Director, Marketing Manager and the Business Development Manager in the respondent firms.

## 3.4 Data Collection

The study used both primary and secondary data. Primary data was collected using a semi-structured questionnaire. The questionnaire was personally administered to the respondents. This enabled the researcher to clarify issues or respond to questions from the respondents. The questionnaire was divided into two sections with part A containing general information about the respondent, part B contained entry strategies used by manufacturing multinational companies in Kenya. As much as possible, a 5-point likert scale was used to determine the entry strategies used by manufacturing multinational companies. Secondary data was collected by use of desk search techniques from published reports and other documents. Secondary data included the manufacturing industry’s publications, journals, periodical and newspapers.

## 3.5 Data Analysis

In order to make sense of the data collected, analysis of the information gathered through questionnaires was done. Data analysis involved the interpretation of findings against the research questions. Data collected was coded and entered into the Statistical Package for Social Sciences for analysis (SPSS). SPSS helped in organizing and summarizing the data by the use of descriptive statistics such as measures of central tendency (i.e. mean, mode and median) and measures of dispersion. Pie charts, frequency tables, bar graphs were used to present the data collected for ease of understanding.

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter presents a detailed discussion of the research findings in an attempt to achieve the research objectives. Data analysis is carried out based on the objectives of the study.

## 4.2 Response Rate

45 questionnaires were distributed to the Managing Director, Marketing Manager and the Business Development Manager in the respondent firms. However, only 40 were completed and returned, representing an 88.89% response rate.

## 4.3 General information of the Respondents

### 4.3.1 Gender of the Respondents

The study sought to find out the gender of the respondents. It captured the gender of the respondents. Table 4.1 shows their response.

**Table 4.1:** Gender of the Respondents

| | **Frequency** | **Percent** |
|---|---|---|
| Male | 28 | 70.00 |
| Female | 12 | 30.00 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

Table 4.1 shows that 70.00% of the respondents were male with 23.00% the respondents being female.

### 4.3.2 Respondent's Working Duration at the Firm

The study sought to find out how long the respondent had worked with at the company which is captured in table 4.2 below.

**Table 4.2:** Respondent's Working Duration at the Firm

| | **Frequency** | **Percent** |
|---|---|---|
| More than 10 yrs | 20 | 50.00 |
| 5 – 10 yrs | 12 | 30.00 |
| Less than 5 yrs | 8 | 20.00 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

From the table above it is evident that most of the respondents had worked at the firm's for more than 10 years. 50.00% of the respondents had worked for the firm for more than 10 years, 30.00% had worked for the firm for 5 to 10 years and the rest 20.00% for more less than 5 years.

### 4.3.3 Relative Size of the Firm

The study sought to find out the relative size of the firm in terms of the number of employees which is captured in table 4.3 below.

**Table 4.3:** Relative Size of the Firm

| | **Frequency** | **Percent** |
|---|---|---|
| 100 or more | 40 | 100.0 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

Table 4.3 shows that all (100.0%) of the respondents indicated that the number of employees at their firm's was 100 or more. Majority of multinational firms usually have a large workforce often comprising of hundreds of employees.

### 4.3.4 Period of Business Operations in Kenya

The study sought to find out the period of business operations in Kenya. From the sampled companies, all of them carried out business operations in the Kenya. The results are as indicated below.

**Table 4.4:** Years in Operation

| | Frequency | Percent |
|---|---|---|
| Over 7 years | 40 | 100.0 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

From the table above 100.0% of the respondents indicated their companies had carried out business operations in the Kenya for over seven years. It is evident that most of the manufacturing multinational companies have been in operation for a period of over seven years.

### 4.3.5 Products Manufactured

The respondents were asked to indicate the type of products they manufactured. They indicated that their companies manufactured sugar, cement, soda ash, milk, beer and cigarettes, human medicine, laboratory reagents, shoes, and shoe soles, household and industrial chemicals, duplicating paper, tissue paper, and coloured cover papers. The respondents were then asked to indicate the countries in which they carried out their operations and they indicated that these were Kenya, Uganda, Tanzania, Rwanda and Burundi.

## 4.4 Entry Strategies Used By Manufacturing Multinational Companies

The general objective of the study was to establish the entry strategies used by manufacturing multinational manufacturing companies in Kenya. The specific research objectives were to determine the entry strategies adopted by manufacturing multinational companies in Kenya and to determine the extent to which entry strategies affect performance of manufacturing multinational companies in Kenya

### 4.4.1 Planning, Formulation and Implementation of Expansion Strategies

The respondents were asked to indicate who participates in planning, formulation and implementation of expansion strategies. The results are indicated in the table 4.5 below.

**Table 4.5:** Planning, Formulation and Implementation of Expansion Strategies

| | Mean | Standard Deviation | Rank |
|---|---|---|---|
| Directors | 1.61 | 0.73 | 1 |
| Top managers | 1.75 | 0.77 | 2 |
| Operation managers | 2.28 | 0.91 | 3 |
| All staff | 3.58 | 0.77 | 4 |

**Source: Author, 2012**

As shown in the table, the respondents ranked directors in first place with a mean of 1.61 as the ones participating in planning, formulation and implementation of expansion strategies followed by top mangers with a mean of 1.75. Operation mangers and all Staff were ranked third and fourth with means of 2.28 and 3.58 respectively.

The respondents were asked to indicate the factors that lead a company to enter into international business. They indicated that the factors are can be divided into either external (environment specific) and internal (firm specific). The external environment factors included market size and growth, government regulations, competitive environment and local infrastructure. The internal decision factors included company objectives, need for control, internal resources, assets and capabilities, and also opportunities arising in the markets.

### 4.4.2 Factors influencing firm's decision to enter the Kenyan market

The respondents were asked to rate on a scale of 1 to 5; (1: To no extent 2. To a less extent, 3: To a moderate extent, 4: To a great extent, 5: To a very great extent) the factors that have influenced the firm's decision to enter the Kenyan market. The results are indicated in the table 4.6 below.

**Table 4.6:** Factors influencing firm's decision to enter the Kenyan market

| | **Mean** | **Std. Deviation** | **Rank** |
|---|---|---|---|
| More favorable cost levels. | 3.67 | 0.91 | 1 |
| Lower other production costs. | 3.08 | 0.89 | 2 |
| Lower transport costs. | 2.89 | 0.98 | 3 |
| Financial (and other) inducements by government. | 2.67 | 1.17 | 4 |
| Availability of raw materials. | 2.33 | 1.12 | 5 |
| Availability of capital/technology. | 2.31 | 1.29 | 6 |
| Lower labor costs. | 1.94 | 1.37 | 7 |
| Availability of labor. | 1.94 | 1.20 | 8 |
| Desire to be near source of supply | 1.83 | 0.96 | 9 |

**Source: Author, 2012**

Means for the factors were established in order to provide a generalized feeling of all the respondents. To no extent responses were coded 1, To a less extent responses were coded 2, to a moderate extent responses were coded 3, to a great extent responses were coded 4 and to a very great extent responses were coded 5. Means closer to one implied that the factor influenced the firm's entry decision to the Kenyan market to no extent. Means closer to 2 implied that the factor influenced the decision to a less extent. Means closer to 3 implied that the factor influenced the decision to a moderate extent. Means closer to 4 implied that the factor influenced the decision to a great extent while means closer to 5 implied that the factor implied that the factor influenced the decision to a very great extent.

The respondents ranked more favorable cost levels technology first with a mean of 3.67 as influencing the entry decision to a great extent. This is was followed by lower other production costs, lower transport costs, financial (and other) inducements by government influencing the entry decision to a moderate extent as evidenced by their ranking and the means of 3.08, 2.89 and 2.67 respectively. Availability of raw materials, availability of capital/technology, lower labor costs and availability of labor influenced the entry decision to a less extent with means of 2.33, 2.31, 1.94, 1.94 and 1.83 respectively.

### 4.4.4 Review of Market Entry Strategies

The respondents were asked to describe their international environment. The results are indicated in the table 4.7 below.

**Table 4.7:** Review of Market Entry Strategies

| | Frequency | Percent |
|---|---|---|
| Yes | 40 | 100.00 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

As shown in the table above, all the respondents indicated that their company's regularly reviewed their market entry strategies. They further indicated that they reviewed their market entry strategy yearly, which is at the end of the year.

### 4.4.5 Status of the International Environment

The respondents were asked to describe the marketing environment. The results are indicated in the table 4.8 below.

**Table 4.8:** Status of the International Environment

| | Frequency | Percent |
|---|---|---|
| Competitive | 28 | 70.00 |
| Fairly turbulent | 8 | 20.00 |
| Unstable | 4 | 10.00 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

Majority (70.00%) of the respondents indicated that the international environment was competitive, 20.00% indicated the international environment was fairly turbulent, while the rest (10.00%) indicated it was unstable.

### 4.4.6 Factors Considered When Entering New Markets

The respondents were asked to rate on a scale of 1 to 5; (1: To no extent 2. To a less extent, 3: To a moderate extent, 4: To a great extent, 5: To a very great extent), the factors that were considered when entering new markets. Means for the factors were established in order to provide a generalized feeling of all the respondents. To no extent responses were coded 1, To a less extent responses were coded 2, to a moderate extent responses were coded 3, to a great extent responses were coded 4 and to a very great extent responses were coded 5. Means closer to one implied that the factor influenced the firm's entry decision to the Kenyan market to no extent. Means closer to 2 implied that the factor influenced the decision to a less extent. Means closer to 3 implied that the factor influenced the decision to a moderate extent. Means closer to 4 implied that the factor influenced the decision to a great extent while means closer to 5 implied that the factor implied that the factor influenced the decision to a very great extent. The results are indicated in table 4.9 below.

**Table 4.9:** Factors Considered When Entering New Markets

| | **Mean** | **Std. Deviation** | **Rank** |
|---|---|---|---|
| Competitors moves | 3.67 | 0.96 | 1 |
| Market trends | 3.58 | 0.77 | 2 |
| Population-Demographic shifts | 2.40 | 0.821 | 3 |
| Political /legal factors | 2.20 | 1.105 | 4 |
| Economic development | 2.10 | 1.119 | 5 |
| Technology Changes | 1.95 | 1.191 | 6 |
| Social/cultural trends | 1.95 | 0.686 | 7 |

**Source: Author, 2012**

It is illustrated in table 4.9 above that competitor's moves with a mean of 3.67 and market trends with a mean of 3.58 were ranked first and second market as factors considered when entering new markets to a great extent. The respondents indicated that they perceived the rest of the factors as being considered to a less extent when entering new markets. This is evidenced by their means which are as follows.

Population-demographic shifts with a mean of 2.40, political /legal factors with a mean of 2.20, economic development with a mean of 2.10, technology changes with a mean of 1.95, and social/cultural trends with a mean of 1.95.

### 4.4.7 Competition in the Industry in Kenya

The respondents were asked to describe competition in the manufacturing industry in Kenya. The results are indicated in the table 4.10.

**Table 4.10:** Competition in the Industry in Kenya

| | Frequency | Percent |
|---|---|---|
| Hyper competition | 24 | 60.00 |
| Very strong competition | 10 | 25.00 |
| Strong competition | 6 | 15.00 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

Majority (60.00%) of the respondents indicated that there was hyper competition in the Kenyan manufacturing industry, 25.00% indicated very strong competition in the Kenyan manufacturing industry, and while the rest (10.00%) indicated that there was strong competition in the Kenyan manufacturing industry.

### 4.4.8 Entry Strategies When Entering the Kenyan Market

The respondents were asked to rate on a scale of 1 to 5; (To a little extent; 2- To a moderate extent; 3- Indifferent; 4- To a great extent; 5- To a very great extent), the extent to which their companies used the listed entry strategies when entering the Kenyan market. Means for the factors were established in order to provide a generalized feeling of all the respondents. To a little extent responses were coded 1, To a moderate extent responses were coded 2, Indifferent responses were coded 3, to a great extent responses were coded 4 and to a very great extent responses were coded 5. Means closer to one implied that the factor influenced the firm’s entry decision to the Kenyan market To a little extent. Means closer to 2 implied that the factor influenced the decision To a moderate extent. Means closer to 3 implied that the factor influenced the decision Indifferent. Means closer to 4 implied that the factor influenced the decision to a great extent while means closer to 5 implied that the factor implied that the factor influenced the decision to a very great extent. The results are indicated in table 4.11 below.

**Table 4.11:** Entry Strategies When Entering the Kenyan Market

| | Mean | Std. Deviation | Rank |
|---|---|---|---|
| Wholly Owned Subsidiaries | 4.53 | 0.81 | 1. |
| Direct and Indirect Export | 4.11 | 1.01 | 2. |
| Foreign Direct Investment | 3.81 | 1.01 | 3. |
| Sequential Market Entry | 3.67 | 0.96 | 4. |
| Turnkey Operations | 3.58 | 0.77 | 5. |
| Franchises | 3.56 | 0.77 | 6. |
| Strategic Alliances | 3.03 | 1.09 | 7. |
| Contracts | 2.92 | 0.94 | 8. |
| Direct Acquisition | 2.53 | 1.00 | 9. |
| Merger | 2.28 | 0.91 | 10. |
| Joint Ventures | 1.86 | 1.20 | 11. |
| Licensing | 1.75 | 1.02 | 12. |

**Source: Author, 2012**

From the results above it is observed that wholly owned subsidiaries was used as an entry strategy to a very great extent as indicated by the mean of 4.53. this was followed by direct and indirect export with a mean of 4.11, foreign direct investment with a mean of 3.81, sequential market entry with a mean of 3.67, turnkey operations with a mean of 3.58 and franchises with a mean of 3.56 which the respondents indicated were used to a great extent. The respondents were indifferent about the extent to which strategic alliances, contracts and direct acquisitions were used as entry strategies as indicated by the means of 3.03, 2.92 and 2.53 respectively. They however indicated that merger with a mean of 2.28; joint ventures with a mean of 1.86 and licensing with a mean of 1.75 were used to a moderate extent. It is now evident that the respondent's companies mainly used wholly owned subsidiaries entry strategy when entering the Kenyan market as evidenced by the various foreign subsidiaries present in the Kenyan market.

### 4.4.9 Performance of the Company since Entry to the Kenyan Market

The respondents were asked to rate the performance of the company since its entry to the Kenyan market. The results are indicated in the table 4.12.

**Table 4.12:** Performance of the Company since Entry to the Kenyan Market

| | Frequency | Percent |
|---|---|---|
| Has improved to a moderate extent | 34 | 85.00 |
| Has improved to a great extent | 6 | 15.00 |
| Total | 40 | 100.0 |

**Source: Author, 2012**

Majority (85.00%) of the respondents indicated that the performance of the company had improved to a moderate extent since its entry to the Kenyan market, while 15.00% indicated that the performance of the company had improved to a great extent since its entry to the Kenyan market. The respondents further indicated that every firm has its own strength, weakness and each market has its own opportunities and threats. None of the entry strategies will be suitable for all the market or even one market for a certain period. The amending strategy along with the changing of a market environment is the right strategy for the market.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter discusses the results gathered from the analysis of the data, as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the interview. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are also given.

## 5.2 Summary of the Findings

The respondents to this study were made up 45 respondents comprising of the Managing Director, Marketing Manager and the Business Development Manager to whom the questionnaires were administered. 40 questionnaires were completed and returned, representing an 88.89% response rate. Majority of the respondents interviewed were in male with most of them having worked at the firm for more than 10 years. All of the respondents indicated that the number of employees at their firm's was 100 or more. It is generally accepted that manufacturing multinational firms usually have a workforce of 100 and above. All of the respondents indicated their companies had carried out business operations in Kenya for over seven years. The respondent companies manufactured sugar, cement, soda ash, milk, beer and cigarettes, human medicine, laboratory reagents, shoes, and shoe soles, wires; household and industrial chemicals, duplicating paper, tissue paper, and coloured cover papers.

Majority of the respondents indicated that planning, formulation and implementation of expansion strategies was mostly carried out by the directors. The respondents indicated that the factors that lead a company to enter into international business are can be divided into either external (environment specific) and internal (firm specific). The external environment factors included market size and growth, government regulations, competitive environment and local infrastructure. The internal decision factors included company objectives, need for control, internal resources, assets and capabilities, and also opportunities arising in the markets.

The respondents ranked more favorable cost levels as influencing the firm’s decision to enter the Kenyan market to a great extent. They indicated that their company’s regularly reviewed their market entry strategies. They further indicated that they reviewed their market entry strategy yearly, which is at the end of the year. Majority of the respondents indicated that the international environment was competitive. They further indicated that the factors that were considered when entering new markets included competitor’s moves, market trends, and population-demographic shifts. The respondents indicated that there was hyper competition in the Kenyan manufacturing industry.

They observed that wholly owned subsidiaries was used as the main entry strategy to a very great extent and that that the performance of the company’s had improved to a moderate extent since their entry to the Kenyan market. The respondents further indicated that every firm has its own strength, weakness and each market has its own opportunities and threats. None of the entry strategies will be suitable for all the market or even one market for a certain period. The amending strategy along with the changing of a market environment is the right strategy for the market.

## 5.3 Conclusions

Based on the results form data analysis and findings of the research, it can be concluded that the following are the popular entry strategies: wholly owned subsidiaries, direct and indirect export, foreign direct investment, sequential market entry, turnkey operations, franchises, strategic alliances, contracts and also direct acquisition. The decision criteria for the mode of entry depend on socioeconomic characteristics (demographic, economic, geographic, and climatic characteristics), political and legal characteristics, financial conditions and consumer variables (lifestyle, preferences, culture, taste, purchase behaviour, and purchase frequency).

It can be concluded that the manufacturing multinational companies in Kenya have high business potential and Kenya provides an attractive investment zone for all companies. These are two main ways of foreign market entry either by entering from a home market base, via direct or indirect exporting, or by foreign based production. Within these two possibilities, marketers can adopt an export path. Entry from the home base (direct) includes the use of agents, distributors, Government and overseas subsidiaries and (indirect) includes the use of trading companies, export management companies, piggybacking or countertrade. Entry from a foreign base includes licensing, joint ventures, contract manufacture, ownership and export processing zones. Each method has its peculiar advantages and disadvantages which the marketer must carefully consider before making a choice.

## 5.4 Recommendations

There is need to create a suitable mechanism to encourage the manufacturing multinational companies to enter in Kenya  market, in order for them to channel resources/remittances towards investment projects in the Kenyan market. This should involve among other initiatives, formulation of incentives to attract financing from the diaspora in form of tax incentives. There is also need for the Kenyan market to diversify financial products to attract more multinationals. The manufacturing multinational companies operating across the border should study the managers' past and current experiences with specific resource bundles, strategies, markets, technologies, and stakeholders to predict a firm's future directions and patterns of growth. Intra-Kenyan tariffs should be completely liberalised as this will enhance the competitiveness of firms, by triggering reallocation of resources which will in turn lower production costs and result in economies of scale; and it will also strengthen the industrial base of the Kenyan manufacturing community in the long term. Additional capacity building measures should be proposed to strengthen the competitive environment which will help companies overcome the market entry barriers which at present restricts exports to the rest of the world.

## 5.5 Recommendations for Further Studies

Future research on multinationals can benefit substantially from a richer conceptualization of the entry strategies that are not limited to a certain position or title, but recognizes the potential that insight and creativity can be provided by all individuals in the organization. In addition, future research studies can examine how capital of multinational companies influences the entry strategy of the multinational company. Studying the past individual and shared experiences of managers can be fundamental in understanding a firm's current entry choices.

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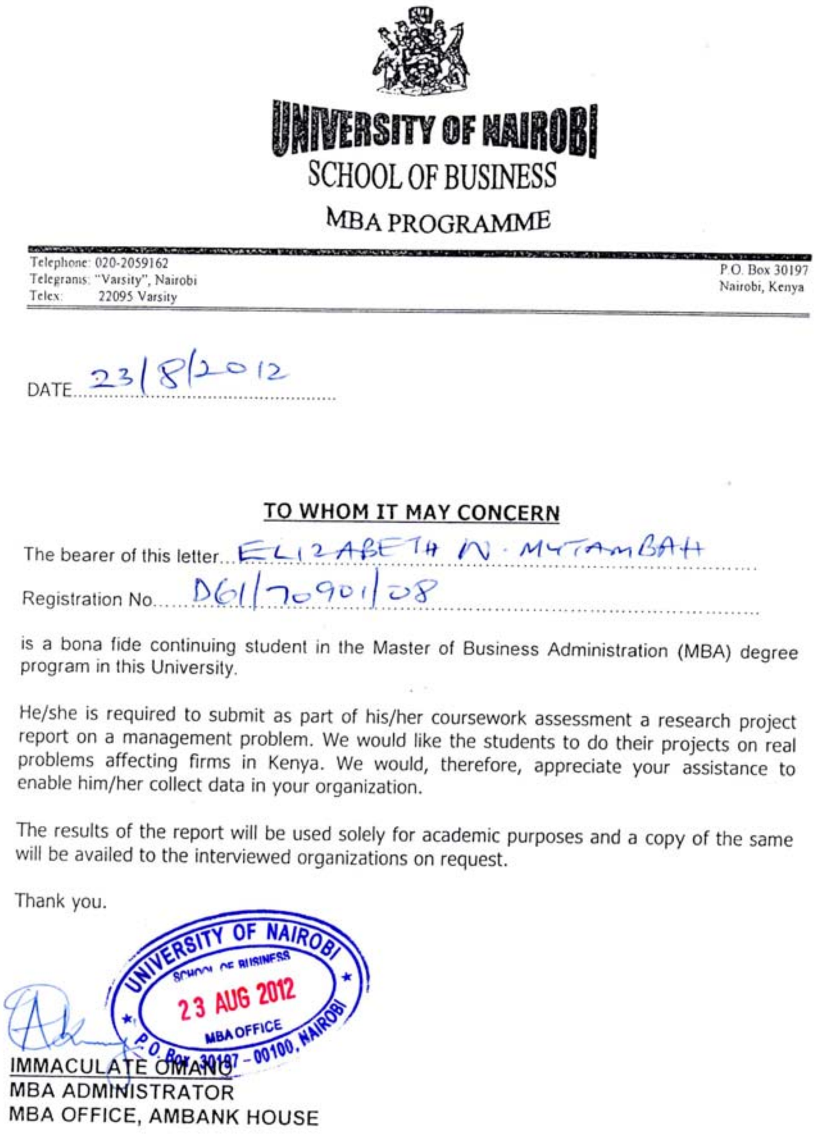
# APPENDICES

## Appendix I: Introduction Letter



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 23/8/2012

**TO WHOM IT MAY CONCERN**

The bearer of this letter ELIZABETH N. MUTAMBAH

Registration No. D61/70901/08

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.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
23 AUG 2012
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

## Appendix II: Questionnaire

**PART A: GENERAL INFORMATION**

1. Indicate the registered name of your company ……………………………………..

2. When was your firm incorporated in Kenya? ..........................................................

3. What is your designation? …………………………………………...…………

4. Please indicate your Gender. Male [ ] Female [ ]

5. How long have you been working with the firm? …………………………………

Less than 5 yrs [ ] 5 – 10 yrs [ ] more than 10 yrs [ ]

6. What is the size of the firm? (Number of employees)

Less than 50 [ ] 51 – 100 [ ] 100 or more [ ]

7. For how long have you had business operations in Kenya? …………………..

8. What do you manufacture?

i ………………….. ii………………. iii……….……………..

iv………………….. v……………….

9. In which countries are you involved in business operations?

i………………… ii……………… iii………………

iv……………. v………………..

**PART B: ENTRY STRATEGIES USED BY MANUFACTURING MULTINATIONAL COMPANIES**

1. Who participates in planning, formulation and implementation of expansion strategies?

Directors [ ] Top Managers [ ]

Operation Managers [ ] All Staff [ ]

2. In your opinion, which are the factors that lead a company to enter into international business?

…………………………………………………………………………………………

……….………………………………………………………………………………

…………………………………………………………………………………………

3. Indicate the extent to which the following factors have influenced the firms decision to enter the Kenyan market? (Please rate 1: To no extent 2. To a less extent, 3: To a moderate extent, 4: To a great extent, 5: To a very great extent)

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Desire to be near source of supply. | | | | | |
| Availability of labor. | | | | | |
| Availability of raw materials. | | | | | |
| Availability of capital/technology. | | | | | |
| Lower labor costs. | | | | | |
| Lower other production costs. | | | | | |
| Lower transport costs. | | | | | |
| Financial (and other) inducements by government. | | | | | |
| More favorable cost levels. | | | | | |

4. Do you regularly review your market entry strategies?

Yes [ ] No. [ ]

How often?

Once a month [ ] After 2 month [ ]

Mid of the year [ ] At the end of the year [ ]

Never at all [ ]

5. How would you describe your international environment as? (Tick as appropriate)

Stable [ ] Fairly stable [ ]

Unstable [ ] Fairly Turbulent [ ]

Competitive [ ]

6. Indicate the extent to which the following factors are considered when entering new markets? (Please rate 1: To no extent 2. To a less extent, 3: To a moderate extent, 4: To a great extent, 5: To a very great extent)

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Political /legal factors | | | | | |
| Economic development | | | | | |
| Competitors moves | | | | | |
| Market trends | | | | | |
| Technology Changes | | | | | |
| Social/cultural trends | | | | | |
| Population-Demographic shifts | | | | | |

7. How do you describe competition in the manufacturing industry in Kenya?

Very weak competition [ ] Weak competition [ ]

Strong competition [ ] Very strong competition [ ]

Hyper competition [ ]

8. In your opinion, to what extent has the company used the following entry strategies when entering the Kenyan market? (Please rank in order of importance) (1- To a little extent; 2- To a moderate extent; 3- Indifferent; 4- To a great extent; 5- To a very great extent).

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Merger | [ ] | [ ] | [ ] | [ ] | [ ] |
| Direct Acquisition | [ ] | [ ] | [ ] | [ ] | [ ] |
| Sequential Market Entry | [ ] | [ ] | [ ] | [ ] | [ ] |
| Joint Ventures | [ ] | [ ] | [ ] | [ ] | [ ] |
| Licensing | [ ] | [ ] | [ ] | [ ] | [ ] |
| Direct and Indirect Export | [ ] | [ ] | [ ] | [ ] | [ ] |
| Foreign Direct Investment | [ ] | [ ] | [ ] | [ ] | [ ] |
| Strategic Alliances | [ ] | [ ] | [ ] | [ ] | [ ] |
| Contracts | [ ] | [ ] | [ ] | [ ] | [ ] |
| Turnkey Operations | [ ] | [ ] | [ ] | [ ] | [ ] |
| Franchises | [ ] | [ ] | [ ] | [ ] | [ ] |
| Wholly Owned Subsidiaries | [ ] | [ ] | [ ] | [ ] | [ ] |

9. How do you rate the performance of the company since its entry to the Kenyan market?

Has improved to a greatly extent ( ) Has improved to a moderate extent ( )

Has Improved to a lesser extent ( ) No improvement noted ( )

Has deteriorated ( )

10. What suggestions do you have on the entry strategies companies can use to effectively enter the Kenyan market?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

11. Any other comments……………………………………………………………..

………………………………………………………………………………………….

……….…………………………………………………………………………………

……….…………………………………………………………………………………

…………………………………………………………………………………………

……….…….……………………………………………………………………………

……….………………………………………………………………………………….

## Appendix II: Large Scale Manufacturing Companies

1. ABB Electric Company
2. Aluminium Africa Ltd
3. Atlas Copco Kenya Ltd
4. Bata Shoe Company (Kenya) Ltd
5. Bayer East Africa
6. Bestfoods Kenya Ltd
7. Coca-Cola
8. Colgate Palmolive (EA) Ltd
9. De la Rue Ltd United Currency
10. East African Breweries Ltd
11. General Motors East Africa
12. Gillette
13. Haco Indusries
14. Henkel Kenya Ltd
15. Nestlé Foods
16. Procter and Gamble EA Ltd
17. Siemens Ltd
18. Tetra Pack
19. Glaxo Smithkline Kenya Ltd
20. Cargill Kenya Ltd
21. BAT Industries United
22. Unilever Tea Kenya Ltd
23. Chandaria Industries Limited
24. Orbit Chemicals Industries Limited.
25. Topen Industries
26. Weltech Industries.
27. Osho Chemical Industries
28. Bamburi Portland Cement Company (BPCC)
29. East African Portland Cement Company (EAPC)
30. Kenya United Steel Ltd (KUSCO),
31. Rolmil (Kenya) Ltd
32. Associated Steel Company Limited
33. Panpaper
34. East African Packaging Industries (EAPI)
35. Sona Holdings
36. Oil Libya
37. Kenol Kobil
38. Bidco Oil Refineries,
39. KAPA Oil Refineries,
40. Palmac Oil Refiners,
41. Pwani Oil Refiners
42. Unilever
43. Alpha Fine Foods Ltd
44. Associated Paper & Stationery Ltd
45. Beta Healthcare International Limited

Source: KAM Directory as at 31st July 2010.

## Appendix III: Schedule

Time Frame for Research Proposal and Study

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ACTIVITY | | | | | | | | | | | |
| PROBLEM IDENTIFICATION | ■ | | | | | | | | | | |
| TOPIC SELECTION | | ■ | | | | | | | | | |
| TOPIC APPROVAL BY THE UNIVERSITY | | | ■ | | | | | | | | |
| PROPOSAL WRITING | | | | ■ | ■ | | | | | | |
| LITERATURE REVIEW | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| QUESTIONNAIRE PERFECTION | | | | ■ | ■ | | | | | | |
| PROPOSAL SUBMISSION &DEFENCE | | | | | ■ | ■ | | | | | |
| DATA COLLECTION | | | | | | | ■ | | | | |
| DATA ORGANIZATION AND ANALYSIS | | | | | | | | ■ | ■ | | |
| REPORT WRITING | | | | | | | | | | ■ | |
| FINAL REPORT | | | | | | | | | | | ■ |
| PRESENTATION | | | | | | | | | | | ■ |

## Appendix IV: Budget

| | ITEM | AMOUNT (KSH) |
|---|---|---|
| 1. | Typing of the project @5/- per page | 270.00 |
| 2. | Printing @ 3/- per page | 162.00 |
| 3. | Binding @ 30/-per copy | 60.00 |
| 4. | Transport Expenses to the various offices | 2,000.00 |
| 5. | Research Assistant | 3,000.00 |
| 6. | Miscellaneous expenses | 1,000.00 |
| | **Total** | **6,492.00** |